

**EXTERNAL COMPULSION AND DOMESTIC
DEMANDS : A CASE STUDY OF INDIA'S LOOK-EAST
POLICY**

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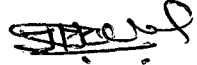


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This is to certify that the dissertation entitled **External Compulsion and Domestic Demands : A Case Study of India's Look-East Policy** submitted by **Joshy M. Paul** is in partial fulfillment for the award of the degree of **Master of Philosophy** of this University. This dissertation has not been submitted for any other degree to any other university and is my own work.


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List of Abbreviations

ADB	Asian Development Bank
APEC	Asia-Pacific Region for Economic Co-operation
ARF	ASEAN Regional Forum
ASEAN	Association for South East Asian Nations
ASSOCHEM	Associated Chambers of Commerce and Industry of India.
BHEL	Bharat Heavy Electricals Limited
BIMTC-EC	Bangladesh, India, Myanmar, Srilanka, Thailand-Economic Co-operation
CBM	Confidence Building Measures
CII	Confederation of Indian Industry
EU	European Union
FDI	Foreign Direct Investment
FICCI	Federation of Indian Chambers of Commerce and Industry
GDP	Gross Domestic Product
HAL	Hindustan Aeronautical Limited
IMF	International Monetary Fund
IOR-ARC	Indian Ocean Rim-Association for Regional Co-operation
IRCON	Indian Railway Construction Company Limited
MEA	Ministry of External Affairs
MITI	Ministry of International Trade and Industry
NAFTA	North Atlantic Free Trade Area
NAM	Non-Aligned Movement
NEP	New Economic Policy.
ODA	Official Development Assistance
SAARC	South Asian Association for Regional Co-operation
SAP	Structural Adjustment Programme
UN	United Nations
US	United States
WTO	World Trade Organisaton

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Preface

Foreign policy and its major instrument, diplomacy, is an area of activity of a state through which it relates to international environment. It serves as an interface between domestic and international environment with the objective of the protection of national interest. Foreign policy emulated, not by the decision makers itself but it reflects the domestic condition in a state according to the circumstances. It is a positive instrument in the promotion of the nation's economic development and protect the vital security interest of the state.

There is a broad economic context for foreign policy making which links both domestic and international economic process. International monetary instability and problems of trade management, the growth of protectionism by regional grouping, and the search for markets and new materials are some of the issues of this context. The control of inflation, unemployment, the search for investment and stability of the domestic currency are some of the issues which are influenced by the foreign policy decision makers. The economic context of foreign policy making has changed in the last twenty years in three major respects. Firstly, the international economic system, which emerged at the end of the second world war, the so called Bretten Woods system has collapsed. Secondly, under the Keyensian system, the domestic economy is unable to face the new challenge. And thirdly the growth of a complex pattern of inter-dependence between societies has marked a change in the economic context of policy making. Thus the foreign policy is becoming increasingly multi-lateral and which gives more emphasis on economic aspects.

The post cold-war scenario has been changed the direction and manifestation of foreign policy and posed new problems for India's foreign policy. The disintegration of the Soviet Union tenders the world into unipolar in nature and the North - Western Europe, North America and Japan - dominate the economic system through Fund-Bank institutions. Accordingly, India recovered its economic crunch in 1991 through structural adjustment programme (SAP) and implementation of new economic policy.(NEP) on the basis of IMF-World Bank guidelines. Indeed, on the economic liberalisation was started under Narashimha Rao government (1991),India

received more foreign direct investment and economic aid for which, tariff barriers were reduced, initiated open market system, allowing market for foreign investors, which basically means the end of Nehru's model of development.

The process of reform had far reaching implications on India's foreign policy which was suddenly called upon to adjust itself to the emerging new and qualitatively different challenges. This had to be done by giving primacy to economic diplomacy in order to convey the message to the world that Indian economy poised for massive and unprecedented modernisation. The Indian foreign policy is directed towards achieving these new objectives which are inconsistent with the country's traditional approach to the problems of the world scene. The achievement of these objectives called for massive changes in India's bilateral relations with major economic powers on the one hand and multi-lateral relations with international institutions on the other. The opening up of the economy necessitated forward looking and changes in domestic economic fiscal policies. There was a need for implementing serious and opened economic diplomacy for enabling massive inflows of foreign investments to India.

The tangible fall out of the economic liberalisation programme in India is the growing importance of the economic aspects of Indian diplomacy. The Ministry of External Affairs (MEA) strengthened the economic division in MEA and has activated in the embassies abroad. The Indian embassies facilitate seminars, discussions, investment meetings, exhibitions and workshops for investors in different countries. The primacy economic development over other factors in India's foreign policy during the 1990s, and attempt to integrate India to the global economy have brought new styles and features of India's diplomacy.

Prime Minister Rao's 'Look-East' policy was driven out primarily by the desire to reach out to the fast growing economies of East Asia and Southeast Asia to develop closer trade and investment relations with them. Asia Pacific region is now a centre of world trade activity and many of these countries have surplus capital. The economic prosperity of Asia Pacific region, especially, Association of South East Asian Nations (ASEAN) region has very much attracted India because these countries derived their prominence through initiating liberalisation during 1980s.

In addition to improve economic relations with ASEAN, it seems likely that security matters will become increasingly important as economic matters. The withdrawal of the US military from the Southeast Asian region have created a vacuum on strategic matters. The Southeast Asian countries were seeing China with suspicion and fear. They realised that India's potential strategic as well economic position in the Indian Ocean region, and they wholeheartedly welcomed India's new orientation.

This dissertation is divided into five chapters. Chapter I deals with the theoretical frame work of the relationship between domestic politics and foreign policy, It also analyse a country's different domestic aspects, which influence on the foreign policy formulation process.

Chapter II explains different domestic variables of India's foreign policy during the 1990s. The domestic political structure and the economic condition of he country during the end of 80s and early 90s are also discussed in this chapter.

Chapter III reveals the economic relations between India and Southeast Asian countries. It also explains the trade relations between the two regions.

Chapter IV deals with the security aspect of the Look-East policy. The importance of security level co-operation between the two region is emphasised in this chapter. Chapter V contains conclusions drawn from this study.

Chapter I

THEORETICAL FRAMEWORK OF THE DOMESTIC COMPULSIONS AND FOREIGN POLICY

The foreign policy of any country is the product of an interplay of history, geography, past experiences, present requirements, perceptions of the ruling elites on national interest, domestic compulsions and also the existing status quo in the international arena. Foreign policy is the sum total of the principles, interests and objectives which a state formulates in conducting its relations with other states. These activities are evolved by nation states for influencing and changing the behaviour of other states. Foreign policy is not merely the result of rational decisions taken by men sitting in a foreign office, but it is rather a complex process in which decision makers derive the principal aims and objectives, after analysing and contextualising the power inputs and outputs in the international milieu.

The primary purpose of the foreign policy of a country is to promote its national interest, to ensure its security, safeguard its sovereignty and generally enhance its stature and role in the comity of nations.¹ In the contemporary scenario (ie. late 20th century) a country's foreign policy should also serve the broader purposes of promoting peace and disarmament, economic development and of establishing a stable, fair and equitable global order.

The result is that the actual foreign policy of a modern state particularly a democratic state, tends to become the cumulative product of a series of short term decisions arrived at under various pulls and pressures, situational compulsions, environmental contingencies and so on. Under such constraints, both the ends and the means tend to be always in a state of flux. The decision makers have to define constantly the specificities of a given situation which in turn tends to overlap the past and the future situation in the same field. Thus the choice of alternatives with regard

¹ See Morgenthau, Hans J., Politics Among Nations : Struggle for Power and Peace, Sixth Edition, New York, Knopf, 1985, p.115

to ends and means is not an absolute choice, but is limited and bound by a wide variety of constraints, many of which are largely beyond the control of those who actually formulate foreign policy.²

The growth of international law and organisation and the impact of technological advancements especially the development of communication systems, on international relations are key factors which impart an essentially dynamic character to the international milieu within which states have to formulate their external policies. Foreign policy operates in the international environment which is outside the sovereign jurisdiction of the nation-state. The factors with which foreign policy is concerned are very volatile and they change according to the complexities in the international scenario.

As the saying goes, 'foreign policy begins and ends at home'. Indeed, the linkages between the domestic system and foreign policy are so deeply embedded - conceptually, pedagogically and institutionally - that analysts do not find it easy to explicate upon the precise ramifications of this relationship. There is, certainly, an increasing inter-dependence between domestic and foreign affairs and therefore between domestic and foreign policies. For example, the economic development of India, essentially a matter of domestic concern, is tied with the seeking of foreign capital and technical know-how. So do the foreign affairs impinge on domestic affairs. This is evident from the way in which the stability of any national currency is found to be a crucial factor that determines the influence and *locus standi*, that, the particular country has in its international dealings. The financial stability is in turn affected by non-domestic factors like international trade and finance, supranational banking structure, multinational corporations, market based policies etc.

The intimacy of the linkage between a country's domestic structure and its foreign policy has been commented upon by scholars from very early times. Plato in his writings as early as 400 BC visualised the linkage between the production of too

²Frei, Daniel and Ruloff Duler., A Handbook of Policy Analysis, New York, Martin Nijhoff, 1968, p.86.

much wealth within a country and her involvement in foreign wars.³ Aristotle advised a ruler facing internal revolution to wage a war with another country.⁴ The ancient Indian theorists like Manu, Brihaspathi, Sukra and Kautilya also the relationship between a country's domestic situation and foreign policies.⁵ Kautilya and Manu opined strongly that the best way for a ruler to wriggle out of a domestic crisis is by diverting the attention through coercive intervention in the internal affairs of neighbouring countries. Their grasp of the significance of the link between internal and external affairs is also evident from their advice to kings to make peace with external adversaries, if they lack necessary strength due to socio-economic and military weaknesses.⁶ The influence that such traditional concept of statecraft have exerted down the ages is very much evident in the methods adopted by the contemporary policy makers to try and ensure that this cardinal link between domestic and foreign affairs is positively balanced. What has to be noted is that such foreign policy formulation that used the external environment for the domestic motive primarily concerns itself with the manoeuvring of the ruling elites to retain their position and controlling different competing political elites.

The relationship between domestic policy and foreign policy - the 'central mystery' as one writer has called it, has always held a special fascination for analysts partly because the reflections on those connections raised some of the larger questions about the nature of political process.⁷ The question not only deals with how a political unit seeks survival and accommodation in a frequently predatory external environment. It also touches upon internal dimensions such as sources of aspiration, the perception of restrictions and opportunities in the environment, prevailing value systems and their institutional manifestations, the role of pressure groups and individual decision makers and so forth.⁸ In other words, all the converging factors

³cited in Hass Michael, 'Societal Development and International Conflict', In Jonathan Wikenfield (ed.) Conflict Behaviour and Linkage Politics, New York, 1973, p.199

⁴ibid., p.199

⁵see Gupta, R.C., Great Indian Political Thinkers, Agra, Lakshmi Narayan, 1970, p.98

⁶ibid. p.98

⁷see Hanrieder, Worfarn F., Comparative Foreign Policy : Theoretical Essays, David McKay, 1971, p.2

⁸ibid., p.8

that influence how a political unit conceives, articulates and advances its demands depends upon the environment.

In the context of a world that is moving towards the concept of a 'global village', it is now a truism of international relations that states are no longer isolated from other sovereign entities. Not only do they interact with each other much more freely than ever before, but they are inter-penetrated by organisational and trade linkages to an extent which makes it extremely difficult to distinguish between the domestic and foreign spheres.⁹ The emergence of these non-state actors (in addition to traditional state actors) and their influences on the policies at the national as well as the international levels have made the boundaries between domestic and international politics very subtle.¹⁰

However, questions about the distinction between internal and external aspects of state affairs presupposes a corresponding underlying schism that is concretely verifiable. This is true whether the political unit in question is an individual, a family, a tribe, a nation-state, or an international organisation. But it is only natural that the socio-political entity that we call the nation-state has been categorised both as a foreign and domestic reality. All the traditional attributes of the nation-state - territorial exclusiveness, sovereignty and equality - under international law, large scale social mobilisation, successful secularisation and nationalisation of value-systems, the ability to command the supreme loyalty of its subjects come within the domestic boundaries of the state.¹¹ Coming to the aspect of a nation's 'foreign' reality, it can be seen that it is predominantly questionable of its foreign policy formulation. There is no single political perspective to explain foreign policy, rather, explanations vary not only in turn of what aspects of foreign policy are to be explained but also with respect to the relevant political arenas and tasks which are used by leaders to cope with the domestic constraints. The existing literature offers different levels of linkage between domestic politics and foreign policy. Hans J. Morganthau (1960) said that the traditional distinction between foreign policy and

⁹Young, Oran R., 'The Actors in World Politics', in James Rosenau, N. (Ed.) International Politics and Foreign Policy : a Reader in Research and Theory, London, Macmillan, 1969, p.125-44

¹⁰Bruce M. Russel., 'Towards a Model of Comparative International Politics', in Rosenau et.al., p.119

domestic policy tends to break down, it is pointless to talk of foreign policy or the domestic roots of foreign policy, it would be more useful to speak simply of public policy, it might also be tempting to say that there are no longer any purely domestic affairs.¹²

Foreign policy can be analytically distinguished from domestic policy. While foreign policy resembles other activities like maintaining educational or medical services, it differs from these examples is that it is at a minimum manifestly oriented to the actual sphere outside the jurisdiction or control of that country.¹³ Domestic policy is social control through law.¹⁴ It is often embedded in legislation and administrative regulation which citizens are obliged to obey. On the other hand, foreign policy is executed through negotiation, persuasion, compromise or in some cases even coercion. Foreign policy may be addressed to domestic interests, but it always carries some minimum intention and recognition of external orientations.

In fact, most researchers in the field of international politics have opined that the systemic conceptualisation of the domestic-international linkages has not been effectively probed. To probe the linkage phenomena intensely and to recognise its theoretical implications, it may be proposed tentatively to identify the conditions under which domestic political variables tend to predominate the foreign policy decision making process. As far as the domestic international linkage is concerned, the one notable theory is Rosenau's 'linkage concept'. Other efforts to theorise the linkage between the domestic international system were made by Earnest Hass (1964)¹⁵ and Karl W. Deutsch (1972)¹⁶ in different levels. The term 'linkage politics' was coined by Rosenau in 1969 in an effort to provide a systematic connection between national and international political behaviour of states and to connect these two spheres of research viz. research on national and international politics, and

¹¹Hanrieder, Worfarn F., op.cit., p.5

¹²Morganthau, Hans J., Politics Among Nations : Struggle for Power and Peace, Sixth Edition, New York, Knopf, First Edition., 1960, p.148

¹³Kissinger, Henry A., 'Domestic Structure and Foreign Policy', in Worfarn F.Hanrieder (ed.), op.cit., p.22

¹⁴Appadurai, A., Domestic Roots of India's Foreign Policy - 1947-'72, Delhi, OUP, 1981, p.10

¹⁵Hass, Earnest B., Beyond the Nation-State : Functionalism and International Organizations, Stanford, Stanford University Press, 1964

thereby to end the conceptual separation between political science and international relations.¹⁷ To facilitate the convergence of the two fields, he proposes that linkage should serve as the basic unit of analysis and defines 'linkage' as any recurrent sequence of behaviour that originates in one system and is reacted to in another one.¹⁸ In order to distinguish between the initial and terminal stages of linkage, he defines the former as an 'output' and the latter as an 'input' for the national or international system - in which the sequence of behaviour either originates or culminates.¹⁹ The connection between outputs and inputs creates a reciprocal feedback network between national and international political systems whereby outputs of one system is input for the other and vice-versa.

According to Roseneau, the relative significance of the domestic viz.-a viz. international set of variables in the shaping of foreign policy can change according to the type of decisions made in different domestic or international structures or different circumstances. The changing pattern of international relations since the Second World War makes a clear differentiation between the domestic and external functions of a state. In the case of many advanced industrialised countries, an increasing number of governmental activities transcend the boundary between foreign and domestic spheres. Brian White, a British scholar, said that British policies towards the other members of the European Community covered a wide range of issues, few of which affect British security interest, at least directly, but many if not most of them, affect domestic interest as much as 'foreign' policy concerns.²⁰ He further adds that these issues have foreign and domestic dimensions and there is often an overlap between the two.

Nationalism, religion, language, welfare state, social democracy and racial ethnic identity all constitute the frameworks of ideas which make demands on decision makers. A country's foreign policy orientations can be dictated by these

¹⁶Deutsch, Karl W., The Analysis of International Relations, New Jersey, Prentice-Hall Inc., 1972

¹⁷For details see, Roseneau, James N., Linkage Politics, New York, Free Press, 1969, p.3-7

¹⁸ibid., p.45

¹⁹ibid

²⁰White, Brian, 'Analysing Foreign Policy : Problems and Approaches' in Michael Clark and Brian White (ed.) Understanding Foreign Policy Systems Approach, Hants, Edward Elgar, 1989, p.6

values and its social structure. Thus a society which places special emphasis on military values is likely to encourage those values in foreign policy while others may tend to give emphasis to development issues.²¹ More concretely, countries which organise their foreign policy on principles like Zionism, Communism or Islamic fundamentalism would pursue different sets of goals than countries which uphold secular national goals. According to Shapire Haward, the foreign policies of countries like Israel, erstwhile Soviet Union and Iran in the post-Khomeni period were dictated by such organising principles^c ^{and} values.²²

There is a distinction between foreign policies of 'open' and 'closed' systems, democratic and authoritarian. The closed societies can adapt more quickly to change in the international systems because, they can, in the short term, ignore domestic political pressures, which might operate in a democracy. A good example is that, Pakistan is autocratic restructuring during the army rule. On the other hand, open societies may well find it easier in the long term to adapt because they have the legitimacy to make the changes democratically acceptable and can maintain a viable relationship between foreign policy and the domestic policy.²³

The role played by the internal political order in shaping foreign policy is clearly related to that of economic and social development. There are two main features or dimensions of the internal political order that are significant in shaping the foreign policy; first, as we have already pointed out, the openness or closeness the regime, and second, the stability or instability of the political order itself. More relevant to the discussion here is the extent to which the foreign policy is moulded by the developments within the political system. This leads to problems of political stability or political instability. For example, the legitimacy of the Congress Party under Narasimha Rao in the 1990s is bound to have its impact not only on the domestic political structure and stability of the country but also on the

²¹ Bindra S.S., Determinants of Pakistan Foreign Policy, New Delhi, Allied, 1988, p.68

²² Mc Gown, Patrick J. and Shapire Haward P., The Comparative Study of Foreign Policy, Beverly Hills, 1973, p.98

²³ Ghoshal Baladas (ed.), Diplomacy and Domestic Politics in South Asia, 1947-1994, New Delhi, Vikas, 1996

governments ability to pursue a coherent and vigorous foreign and economic relations.²⁴

Having outlined the linkages between domestic political order and foreign policy, we can now proceed to identify the uses of foreign policy for the promotion of domestic goals of a nation. Foreign policy appears to serve two principal uses; defence of nation's independence against perceived threats and the exercise of autonomy in relation to other countries; mobilisation of the resources of the outside world for the country's economic development together with access to advanced technology and markets. In short, independence and economic development are the major goals in the formulation of foreign policies of third world countries in particular. It is the interplay among these two variables that produces foreign policy. This can be a useful model for the analysis of foreign policies of third world countries, because irrespective of each one's uniqueness, all of them face certain common problems in relation to their foreign policies. Vulnerabilities or weakness viz.-a-viz. the outside world is a common feature that manifests very prominently in the foreign policy behaviour of developing countries.²⁵

Domestic Structures of Foreign Policy

There are mainly five elements in the domestic environment that affect the making of foreign policy; geography, history and tradition, social structure, political organisation and economic system.

A. Geography : That the geography of a country is important in shaping its foreign policy is attested by the development of geo-politics as a science. Geographical factors like size and location of a country, its natural resources and its population size contribute to the power of the nation, which in turn shapes its foreign policy. The chief advocates of geo-politics during the late nineteenth and early twentieth century are Alfred Thayer Mahan and E.C. Semple in the United States, Rudolf Kgellen in

²⁴Maass, Citha D., 'Reorientation of India's Foreign Policy', Aussen Politik (German Foreign Affairs Review), 1993, Vol.1, No.44, p.35

²⁵The importance of weakness in the evolution of foreign policies of Third World countries has mentioned by a few analysts in their studies. For example, William Johnstone has alluded to the

Sweden, Halford Mckinder in England and Edmond Demalins in France, all of whom laid great stress on the role of geographic factors in international relations and foreign policy.²⁶ But we must not exaggerate their importance, for the effectiveness depends upon a combination of several factors including the quality of governmental leadership and technological strength. The equations of national power contain many variables and it is the relationship among these variables that largely determines whether nations will be weak or strong.

On the geographical factors of power, special attention may be drawn to location. Britain and Japan - small islands of the coast of Europe and Asia - became great nations because of their ability to use the oceans as highways of commerce. The absence of natural frontiers, as Poland has discovered throughout its history, can decide whether or not national security can be preserved. The fact that the United States is separated from the old world wars a considerable factor is its early development : it was secure and well preserved. That Britain is separated from Europe by twenty miles of water gave her an advantage denied to several countries such as France and Germany which had to spend much of their resources in fighting each other on border problems.²⁷

B. History and Tradition : Foreign policy of a country can not remain unaffected by historical tradition that are particularly responsible for forming the culture of a society. Indeed, foreign policy being a form of social action undertaken by individuals and foreign policy makers being part of the social milieu, they can not disregard those values, beliefs, norms, attitudes and practises that are transmitted through successive generations and which are still regarded as worthy of esteem and adoption. The residue of the past can thus be seen as one of the factors affecting the external behaviour patterns of a country. This is why, speaking on 27th October, 1947, Frank K. Robert, a member of the British Foreign Service, said that over the years certain historical factors had been constant in the British approach to international

importance of weakness in his study of Burma's foreign policy, see his Burma's Foreign Policy : A Study of Neutralism, Cambridge, 1963, pp.248-9

²⁶Wilkinson, David O., Comparative Foreign Relations : Framework and Method, Belmont Calif, 1969, p.148

²⁷ibid.

affairs.²⁸ In fact the bitter colonial experience of the past have led to governments of virtually all new states of the Third World to retain decolonisation as a basic principle and objective of their foreign policy.

The impact of the historical-cultural setting was also clearly discernible in Pakistan's policy towards India. The problem of cultural identity in Pakistan that was created due to Pakistan's attempt to identify itself with West Asian countries despite its being a part of the Indian sub-continent and having a shared history with India, was based on a growing sense of insecurity within that country. This insecurity found expression in often repeated propaganda that India was bent upon its dismemberment.²⁹

C. Social Structure : National morale is recognised to be an important element in the power of a state, and therefore, in the successful conduct of foreign policy. It is evident that a pluralistic society with a mature, secular and accommodative polity makes for stronger national unity and morale than an imbalanced one. A society reaped on the basis of division between rich and poor, partisan divisions on the basis of religion, regional imbalances, etc. It makes it difficult for the government to count on an immediate and nation-wide co-operation in such a society. The effectiveness of such a co-operation is crucial in crisis situations like war. Britain's firm united stand in the blitz during the Second World War under the brilliant leadership of Winston Churchill or the Soviet Union's resistance to Hitler at Stalingrad (1942-'43) under Stalin's leadership are classic instances of how aggressors can be thwarted by unity at home. The leadership provided by Churchill and Stalin also deserve credit : but the basic honour goes to the people of the two countries who were preserving their freedom.

One way to explain the working of foreign policy systems is to delineate how particular types of society have different characteristics of foreign policy. In the 'authoritarian' or 'closed' societies, the government enjoys greater flexibility on the

²⁸Appadurai A., see his address to the Indian Council of World Affairs on 27th October, 1949 on 'British Approach to International Affairs' as reported in India Quarterly, New Delhi, Vol.6, No.1, 1950, pp.18-30

²⁹Gupta, Sisir, 'Pakistan's Domestic Crisis and Foreign Policy', South Asian Studies, Jaipur, Vol.7, No.1, 1972, p.52

foreign policy decision making level.³⁰ For example, in August 1939, Germany and Soviet Union were able to sign a treaty which marked a sudden reversal of both states' foreign policies.³¹ On the other hand, 'open' or 'liberal' democracies often have greater difficulty in adapting their policies, especially in a short span of time. The governments in open societies have to some extent be able to manipulate public opinion in a constrained manner. The Japanese foreign policy, for instance, may be conducted by a small, restricted elite, but Japanese public opinion since the Second World War has made it inconceivable that any government could develop nuclear forces.³²

D. Political Organisation : The internal political structure of a country has an important impact upon that country' approach to international affairs. In an absolute monarchy or a dictatorship, the decision making power rests with an individual and the decisions can be relatively quickly made, while in a presidential or parliamentary democracy

, the decisions are takes on consent with the public opinion. Indeed, the distinguishing mark of a free government is the very freedom allowed to the citizens to express their opinions on public policy, domestic or foreign. There are, besides, established institutions such as an elected head of the government, political parties and a free press for the expression of opinion. For instance, when one sees the foreign policy making in Britain it is discernible that 'all policy, including international policy gets decided by or atleast secure the active approval of, the majority in parliament and of the majority of the country represented in parliament.'³³

E. Economic and Spatial Patterns : The level of economic development of a society influences both its social structure and its foreign policy. Angell, Hobson and Lenin have suggested that international conflicts and the foreign policies which bring them about, are the direct result of specific patterns of economic relations,

³⁰Farrands, Chris, 'The Context f Foreign Policy' in Michael Clark and Brian White (ed.) op.cit., p.251.

³¹ibid. p253.

³²ibid. p.256

³³Quoted in Appadurai A., India Quarterly, op.cit, p.28

competitions for market and the search for profitable investments.³⁴ In the view of these writers, foreign policy is controlled by economic circumstances : policy makers are concerned with recognising and responding to interests and pressures rather than with the rational selection of a policy from a range of options. Thus it can be argued that the domestic economic milieu is also a deciding factor in the shaping of a country's foreign policy.

Foreign policy in turn affects the economic development of an underdeveloped country in four ways. It may help to secure foreign aid in its development. It may encourage or discourage the flow of foreign private capital. It may, through its foreign trade policies and trade agreements, promote or retard exports with their impact on balance of payments as well as on economic growth. It may through joint industrial ventures with other developing countries, given an impetus to increase production, which would form an appreciable part of the G.D.P.

The economic situation of a country has a direct bearing on its degree of dependence on foreign aid and the conditions within which such aid is to be sought and secured. The term, 'foreign aid', economists have pointed out, is an ambiguous one, but it can be used for the nominal value of direct and indirect flows of financial and other resources from rich countries to poor.³⁵ Foreign aid includes both grants and loans. Grants of convertible currency are certainly aid to the full face of value, but loans are sometimes an insignificant element of aid.

The economic situation of a Third World country compels it to rely on 'foreign private capital' for its economic development. The balance of payment crunch often hits those countries compelled to seek capital from developed countries. The advanced technology and capital of the developed country is necessary for setting up of industries and ventures in developing countries. It can minimise the balance of payment problem and attain export oriented growth. Indeed, it provides an added

³⁴Angell N., The Great Illusion, London, Hanimann, 1989,

Hobson J.A., Imperialism A Study, Third Edition, London, Allan and Urwin, 1968,

Lenin V.I., Imperialism, the Highest Stage of Capitalism, Beijing, Foreign languages Press, 1975

³⁵See Little I.M.D. and Clifford, International Aid, London, Allan and Urwin, 1965, p.13

source of capital for economic growth and also provides generating employment opportunities, especially in the technically skilled labour.

Indeed, the foreign policy of a country, is a product of its domestic strategies, and the socio-cultural, politico-economic context out of which it arises. The significance of a particular determinant of foreign policy tends to change in varying circumstances and in varying countries. It can be argued that domestic compulsion are likely to prevail over the international factors in formulations of foreign policy of a country. Yet, it seems futile to hope that from among the various domestic imperatives, one can single out a particular variable as the permanent dominant input in a country's foreign policy. In many cases, it is simply impossible to discover which variable is more important. For instance, Nehru choose the policy of non-alignment mainly because of India's cultural, philosophic traditions, the imperatives of domestic cohesion, economic needs and his abhorrence of the cold war and so on, without singling out any one factor.

This study, therefore, assumes that attempts were made by the analysts of comparative foreign policy to locate the various domestic variables as likely to yield the inclusive result of 'linkage politics'. In fact, a researcher in comparative foreign policy has to give due importance to the significant domestic determinants which are greatly influencing the decision making level. It may sometimes be cultural or historic or any other domestic variable. However, in this study prime importance has been given to the economic variable, because in the post-cold war scenario, foreign economic relations overshadowed the traditional foreign relation. Thus foreign policy has been used as a means for the internal economic development of a country.

Chapter II

THE DOMESTIC COMPULSIONS OF INDIA'S FOREIGN POLICY IN THE 1990s

This chapter explains the domestic roots of India's foreign policy in the 1990s particularly the 'Look East Policy'. Moreover, the state of affairs in the Indian domestic front during the post-cold war era had been one of instability and social tension. The assumption of government office by the new Prime Minister Narasimha Rao in June 1991 marked the beginning of a redefinition of India's role in the international system.

A survey of India's foreign policy studies reveals an almost total lack of focus on domestic-international linkages. A.P.Rana remarks that there is much emphasis on studying the domestic determinants, but the field needs a detailed survey of the priorities based on a conceptual scheme related to the present and the future needs of India's foreign policy.¹ Besides, the need to study the domestic compulsions in India's foreign policy arises because the functioning of the political system differs from one situation to another.

In the economic field, Nehruvian Socialism had crippled innovative forces and turned India into a 'caged tiger'.² In the domestic policy field, social changes had further intensified the manifold antagonisms in a heterogeneous society. The tension between the high and low castes of the population's Hindu majority as well as between the Hindus and Muslim minority had exacerbated. The imbalance between regions with differing resource endowments had grown. This created a favourable breeding ground for separatist movements. With respect to the political system, Mrs.

¹Rana A.P., 'International Linkages : A Trend Report Survey of Research in Political Science', International studies, Vol.5, No.2, 1988, p.27. There are few works viz.,

A.Appadurai, Domestic Roots of India's Foreign Policy, Delhi, OUP, 1981.

Bharat Wariawalla, 'Personality, Domestic Political Institutions and Foreign Policy', in Rao Joshi and R.K.hebsur (ed.), Congress in Indian Politics : A Contemporary Perspective, Bombay, Popular, 1987.

²See 'India Caged, A Survey of India', Supplement in The Economist, 4th may, 1991.

Gandhi and Rajiv Gandhi had deformed the democratic structure in such a way that more and more power was concentrated in their hands. This prevented a democratic functioning of the Congress Party, impaired constructive intercourse between the government and opposition parties and was also partially responsible for the serious crisis of government in 1991-92. In the financial field, the repercussions of the Cold War, the increase in the price of oil, the setback in bilateral trade with the former Soviet Union and India's self-isolation from world trade took the country to the brink of insolvency at the beginning of 1991.³ Finally, in the foreign policy field, New Delhi was increasingly isolated by inadequate flexibility in view of Gorbachev's rapprochement with the West, the subsequent disintegration of the Soviet Union and India's own ambivalence during the Gulf War.

Unfortunately for India, Cold War politics intruded a too much into the psyche of the foreign policy planners. Indian foreign policy at one stage, was self-reliant on relations with the Soviet Union which in turn caused ups and downs in relations with the US, Britain, France, Germany and Japan. Again, India was obsessed with the issue of Kashmir with an overemphasis on playing up the 'Pakistan factor' in its relations with international community.⁴ With the end of the cold war and the domestic political instability and internal economic repercussions, the new government under Narasimha Rao needed new vistas of foreign policy. The most successful foreign policy outlook of India in the 1990s is its relations with the Asia Pacific Economic Co-operation (APEC) region. India was very much impressed with the dynamic growth of this region. The tremendous economic growth in South East Asian countries had given an impetus to India. These countries had attained their status through economic stability within in the country and started export oriented growth since the 1980s. Thus Indian leaders looked to South east Asian regions for promising friends in the future.

³Maass, Citha D., 'Reorientation of India's Foreign Policy After the Cold-war', Aussen Politik, Vol.44, No.1.

⁴Vanaik, Achin, 'Rethinking in India's Foreign Policy', in Indian Foreign Policy : Agenda for the Twenty-first Century, Foreign Service Institute, New Delhi, 1977, p.102.

The 'Look-East Policy'

The end of the cold war has ushered in a new era in Indian foreign policy making. One tangible outcome as a result of this rejuvenated new foreign policy is its growing links with important regions like South East Asia. Unfortunately, India's relations with the economically and strategically important region have been marred by a total lack of understanding and insensitivity. South East Asia's importance was duly recognised way back in the 1940s by K.M. Panikkar, probably one of India's first strategic analyst and visionary, who compared Malacca straits with the mouth of a crocodile and the strategic importance of these straits to both Indian and Southeast Asian security.⁵ The then Indian Prime Minister Jawaharlal Nehru too recognised Southeast Asia's significance which offered a window of opportunity for the newly liberated India to forge close political links. Indeed, India's first forays into foreign policy affairs was in Southeast Asia in support of anti-colonial movements in that region. One can trace a series of Indian initiatives : convening of the Asian Relations Conference in January 1947, a special Conference of Indonesia in January 1949, chairmanship of the International Control Commission on Indo-China in 1954, and co-sponsorship of the Bandung Conference in 1955.⁶ It is a fact that, South east Asia was the one region with which India had every reason to strengthen ties. Thailand happened to be a Hindu Buddhist country, Malaysia and Singapore had large populations of Indian origin, and Indonesia had long been one of the countries with which India had flourishing trade

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The Bandung Conference was the last important event as far as India's involvement in Southeast Asia was concerned. Intense Cold War rivalry in Southeast Asia and the Vietnam war created gaps between India and Southeast Asia in the 1960s. Notwithstanding repeated pronouncements about New Delhi's neutrality and its non-aligned policy, the non-communist countries of Southeast Asia identified India with the former Soviet Union after 1971. India maintained closer links with Vietnam after it developed serious differences with China, it was totally kept out of ASEAN

⁵Quoted from Khilnani, M.N., Panorama of Indian Diplomacy : From Mauryan Epoch to Nehru Era, New Delhi, S. Chand and Co., 1981, p.93.

⁶Rajan M.S., Studies on India's Foreign Policy, New Delhi, ABC, 1993, p.55.

deliberations.⁷ India's support to Vietnam's military intervention in December 1978 and its recognition to the Vietnam installed regime in Cambodia put an end to whatever chances India had to get closer to ASEAN.⁸ The signing of the Indo-Soviet Treaty following the outbreak of the Bangladesh war further widened the distance between India and ASEAN. Similarly, the ASEAN region saw all Indian utterances and proposals and initiatives as serving Soviet interests. The Far Eastern Economic Review quote, "In all ASEAN capitals, there is on uneasiness about the present close relationship between Soviet Union and India and a growing fear that Moscow and New Delhi might be gauging up on the Southeast Asian countries India is not taken in Jakarta and there is real concern that Moscow may have well acquired in future Indian sphere of influence in the area at part of its policy of containing China".⁹

India since its independence, was unable to evolve a long term and coherent policy to Southeast Asia. India was in a spotlight in the ASEAN region for wrong reasons. The Indian navy in the eighties became a major topic of discussion.¹⁰ The reactive spurt in the Indian naval expansion in the eighties because of acquisition of certain high profile vessels, such as the second aircraft carrier, the leasing of a nuclear powered attack submarine from the former Soviet Union, the modern kilo-HDW-class submarine, the language maritime reconnaissance TU-142 Ms, and plans to build a variety of ships indigenously like destroyers, frigates nuclear submarines etc., and close defence and political links with the former Soviet Union led to increased suspicions in the ASEAN region.¹¹

There was a period of comparative inactivity and lull between 1984 when Indira Gandhi was assassinated and 1991 when Narasimha Rao became Prime Minister. During this period India has seen three Prime Ministers; Rajiv Gandhi(1984-1989), V.P.Singh (1989-1990) and Chandrasekhar (1990-1991). While

⁷Wadhva, Charan D., 'Economic Co-operation Between Countries of ASEAN and SAARC', in Prem Vashishta (ed.), Commonalties, Complementary and Co-operation : Asia Pacific Region, New Delhi, South Asia, 1989, p.89.

⁸ibid.

⁹Quoted from Ayoob, Mohammad, India and Southeast Asia: Indian Perception and Policies, London, Routledge, 1990, p. 62

¹⁰ibid, p.67.

¹¹ibid, p.73.

Rajiv Gandhi tries to built relations with Southeast Asia, but his attempt were not entirely successful.¹² Since his tenure had began just when Gorbachev was trying to dismantle the communist stronghold on the Soviet Union. One notable success which was to contribute immensely to the fruition of India's 'Look-East Policy' was Rajiv Gandhi's path breaking visit to China in 1988. Sino-Indian relations began to then and this impinged on India's ties with Japan. The real thrust of the 'Look-East Policy' was given in the early nineties by the policy of economic liberalisation unleashed by Narasimha Rao government in 1991, when India recognised the importance of this region.

Under Narasimha Rao's stewardship foreign policy got reactivated and economic diplomacy became one of the pillars of foreign policy in the liberalised setting. A more outwardly oriented economic strategy was born, and this policy shift coincided with the regionalisation device promoted by some ASEAN countries. ASEAN came to be identified as central to India's policy in the entire Asia-Pacific region. India adopted a three pronged approach in its look-east policy; first, to renew political contacts with the ASEAN member nations; second, to increase economic interaction with Southeast Asia (trade, investment, science and technology, tourism etc.), and three, to forge defence links with several countries of this region as a means to strengthen political understanding.¹³ India has been fairly successful on all these three aspects.

As a result of greater understanding between India and ASEAN countries backed by India's domestic economic reforms and without the cold war baggage, India was initially made a sectoral dialogue partner of ASEAN in 1992 and was elevated to full dialogue partners of ASEAN in late 1995. Similarly, in the economic front too India has made considerable progress in both attracting investments from countries like Singapore and Malaysia, and increasing the two way trade enormously.

¹²Kaul T.N., 'Indian Foreign Affairs Record', World Focus, Vol.17, No.(10,11,12), 1996.

¹³See Gordon, Sandy, 'India and Southeast Asia : A Renaissance in Relations', in Sandy Gordon and Stephen Henningham (ed.), India look-East : An Emerging Power and Its Asia Pacific Neighbours, Strategic and Defense Studies Centre, Canberra, 1995, p.207.

Table 2.1

Foreign Direct Investment of Asia-Pacific Countries in India (US \$ million)

Year	Malaysia	Japan	Singapore	South Korea	Hong Kong	Indonesia	other countries	Total
1991	0.5	12.55	0.33	1.48	5.05	-----	107.7	127.2
1992	17.71	145.29	14.33	9.38	23.12	0.45	715.3	925.6
1993	2.02	61.29	15.88	6.98	20.95	0.10	2002.1	2109.4
1994	6.00	95.45	63.21	25.45	39.24	-----	1903.2	2132.5
1995	330.02	360.55	235.95	74.81	96.95	74.60	6180.0	7352.9
1996	10.07	354.36	76.14	766.88	120.93	8.93	6015.7	7353.0
1997	501.10	453.90	205.21	465.71	61.59	2.50	10307.4	11997.4
1998*	429.12	291.95	100.79	86.07	56.67	7.00	4132.2	5103.8

*From January to September.

Source: Centre for Monitoring Indian Economy 1999, cited from Asiaweek, May 7, 1999.

On the strategic scenario, ASEAN created the new framework for multinational co-operation called the ASEAN Regional Forum (ARF) to discuss security related issues.¹⁴ India's participation in the ARF was not only a logical consummation of the getting-closer-to-each other process which had been going from 1991 onwards but it testified to the ASEAN's confidence in India's capacity to contribute meaningfully to the ARF objectives.¹⁵ India was formally admitted as an ARF member in 1996 and fully supported the ARF strategy comprising three stages : promotion of confidence building measures, development of preventive diplomacy and development of conflict resolution mechanism.¹⁶ With India's admission to the ARF and its full dialogue partnership with ASEAN, the stage had been set for India to look for new horizons. Following the look east policy, Indian navy has held joint exercises with Indonesia, Malaysia and Singapore. Similarly, the exchange of high level visits provided flesh and blood to the relationship which was growing by leaps and bounds.

¹⁴Habib, Hasan A., 'The Post Cold-war Political Security Landscape of the Asia Pacific Region', *Indonesia Quarterly*, Jakarta, Vol.XXII, no.1, 1994, pp.51-61.

¹⁵Viswam S., 'India's Look-East Policy', *World Focus*, Vol.18, No.6, 1997.

¹⁶ibid.

During the visits of Indian Prime Minister to Thailand (the first ever visit by an Indian Prime Minister), Indonesia, Malaysia, Singapore and Vietnam, all these countries began taking an interest in investing in India and promoting two-way trade. This was underlined by the Singapore Prime Minister Goh Chok Tong came to India as chief guest for Republic Day celebrations on 1993. Subsequently,¹⁷ the Malaysian Prime Minister Mohathir Mohammed paid an official visit to India in 1994.

✓ India's entry into the ARF was on the basis of consensus with some reservation of the three Muslim states Malaysia, Indonesia and Brunei on regarding Indo-Pak dispute. The 'China factor' too played a major role in the ASEAN's move to cultivate India as an alternative, both in the economic sphere for trade and investments, and on the security plank of balance both sides.¹⁷ According to Mukul S Asher of the National University of Singapore, 'Economically and in terms of security, China and India are two huge blocs for Southeast Asia. ASEAN has no defence related problem with India, but is conscious of China's ambitions and intentions. It is clear that the current agenda of economic disagreement of Beijing cannot continue beyond another year. By then, China would become an economic power and may divert its attention to the unrealised military and territorial agenda.'¹⁸

Domestic Inputs of the 'Look-East Policy'

(a) Geography

India's strategic location at the centre of the great Asian arch and the Indian ocean has a vital role in the history of Asia. 'Look at the Map', Jawaharlal Nehru told the members of the Constitutional Assembly on 8th March, 1949 : 'If you have to consider any question concerning Southeast Asia, you cannot do so without India'.¹⁹

India's strategic location on the Indian Ocean and its peninsular character with extensive and open coast line makes it dependent on the Indian Ocean. India has about 3500 miles of sea-frontiers as compared to 8200 miles of land frontiers. The

¹⁷Gordon Sandy op cit p-225

¹⁸The Hindu, August 8, 1996

¹⁹Nehru, Jawaharlal, India's Foreign Policy : Selected Speeches, September 1946 to April 1961, Mol&B, Government of India, New Delhi; 1961, p.305.

importance of the sea-frontiers is evident from the fact that 19 per cent of India's external trade is sea-borne ²⁰The rise of any hostile power with access to the Indian ocean would not only disrupt Indian foreign trade which depends on freedom of the India ocean but also undermine our global importance and jeopardise our security. In view of the importance of the Indian Ocean for India, it has raised voice against the American presence in this area and it has been demanding that this area should be converted into a zone of peace²¹.

As far as the region of Southeast Asia is concerned, India has been an important region, because of its geographical proximity. The Bay of Bengal is links the two region and any developments in the ocean have an effect to Indian interest in the ocean. Singapore, Thailand and Malaysia have common boundary with the Indian ocean, which plays a vital role in India's security. The Andaman Islands is very strategic area between India and Southeast Asia. Myanmar allowed its region for the Chinese naval base, which have affected India's interest in the Indian Ocean. So India have to build a cordial relationship with the Southeast Asian region.

Internal Social Structure

One important aspect of the working of foreign policy system is the influence of domestic social structure in its formulation of foreign policy. In a stable democracy the formulation and implementation of foreign policy is less problematic. India is a pluralistic society, deeply embedded with its caste system, poverty and illiteracy. It is difficult to visualise that a large segment of India's population would have the capacity to participate in foreign policy matters. The Indian system has however thrown up a group of persons belonging to media and the elite, who are articulate on foreign policy.²²This create an interest in the public about the successful foreign policy. If any tension happened in the society, the decision makers of foreign policy formulates their decision in accordance with the internal social tension, so as to salvage the country's image in the international arena.

²⁰See P. K. Karan, 'India's Role in Geopolitics', in K.P. Misra (ed.) Foreign Policy of India: A Handbook of Readings, New Delhi, Allied, 1997, p.1

²¹Bandyopadhyaya, J., The Making of India's Foreign Policy, New Delhi, Allied, 1987, p.40.

²²See Kapur, Harish, India's Foreign Policy : Shadows and Substance, New Delhi, Sage, 1994, p.92.

During the later part of the Rajiv Gandhi's period the Babri Masjid issue had become serious. Where the majority Hindus and minority Muslims antagonistically stacked claim on the land. On December 6th 1992 the Babri Masjid was demolished by the communal Hindu organisation Rashtrya Swayam Sevak (RSS).²³ In the aftermath of the Babri Masjid demolition the communal riots breakout in different parts of the country and hundreds of people were killed. The minority community, for that, their interest and protection were being humiliated by majority community.

India as a nation was deeply divided the Babri Masjid episode, perhaps, more than it has ever seen since 1947. The Indian polity is fractured with Minorities (Muslims) against Hindus, the North against the South and party against party. After the demolition, a survey conducted observed that the Congress would lose about a dozen seats down from 245, if an election would occur.²⁴

Over these happenings in the name of the Rama Rajya, the Muslim community was very much deserted by the Congress because of its alleged 'soft Hindutva'. The neighbouring as well as whole Muslims world reacted very strongly and sharply about the demolition of the Masjid. These prominent Muslim countries had been good bilateral and multilateral relations with India.

In the wake of the Babri-Masjid fiasco Prime Minister Rao's continued visit to Southeast Asia gains utmost strategic importance. Both Malaysia and Indonesia share the ethnic plurality with India. Also the fact that these nations are predominantly Muslim countries with a liberal and moderate outlook must have prompted Rao to try and better the foreign relations with them is a bid to salvage India's image in the Muslim world.

4. Domestic Political Instability

In democratic countries the common people elect their representatives in government for a fixed term. However, many of the parliamentary democracies have not been able to sustain an environment where the government completes the

²³Ramakrishna, Venkitesh, 'The Wreking Crisis', Frontline, January 1st, 1993, p.10.

²⁴India Today, February 24, 1993.

stipulated period. In these countries, the government were formed through coalition structure of various political parties who represented different political ideologies. These governments were unable to formulate coherent and stable policies either domestic or external because of such internal pressures. Many of their time was spend for solving the domestic problems that ensured from such confusions namely communalism separatism economic instability etc.

In India, the National Front government of 1988 was unstable because the Janatha Dal formed the government under V.P.Singh with its parliamentary strength of only 143 members out of 529 of the Lok Sabha, by securing the support of the Bharathiya Janatha Party as well as the Left parties. The Prime Minister V.P Singh had concentrated most of his time on domestic affairs. The implementation of Mandal Commission divided the society on caste lines. The upper caste Hindus and OBCs (other backward castes), both staged agitated protests and mass movements for their own self interest. In the economic field also the government faced sever Balance of Payment problem. In was because of the increase in oil price and also the unexpected expenditure of evacuating the Indians from Kuwait during the Gulf war in the 1990's. During the period of Chandrashekar government the economic situation worsened further. He pledged 20 tons of gold in the Bank of England for saving the Balance of Payment crunch.

In the foreign policy field, the National Front government was not successful. During the time Gulf war (1990) and the collapse of the Soviet Union, India's position was ambivalent. The political instability of the county since 1989 had cast a poor image abroad. There was a steady decline in the country's reputation abroad over the three years of the coalition rule. One of the main domestic challenge to India's foreign policy in 1990's has been the preoccupation with facing the non confidence motion in the Lok Sabha against respective governments. Obviously the government's policy makers gave prominence to the challenges of domestic politics rather than foreign policy issues because the former is more closely linked up with the survival of their government and hence to the issue of political stability.

After the 1991 general elections a minority Congress government under Narasimha Rao came to power. He was seasoned politician having gained experience as Foreign Minister in the 1980's in Indira Gandhi's Cabinet. He also served as HRD minister under Rajiv Gandhi. On his assuming the post of Prime Minister, Rao tried to overcome the economic crisis by means of a Structural Adjustment Programme (SAP). Under this programme India opened its doors for foreign capital and technical know-how. India succeeded in acquiring the necessary amount of capital and investment from different countries for recovering from the economic crisis that happened in 1991. In this scenario, Rao looked towards a new region which was economically powerful. The countries of Southeast Asia had started liberalisation programme since 1980's and their economic position in world arena was respectable. India had received rupees 7.9 billion foreign investment from Asia-Pacific region during 1991-94.²⁵ Thus through the accession of FDI the domestic economic situation was efficiently managed, it led to political stability and consequently a steadying of the Foreign Policy objectives also.

Demands of Economic Development

The focus in public discussions is usually on the political aspects of foreign policy; when that policy is studied in perspective, however, the economic aspect gets high priority in the post-cold war period. The economic development of India has been such an urgent need that policy makers were right to use foreign policy as a tool to further development.

The economic condition of the country during the second half of 80s and early 90s were deteriorating.. In the second half of the 1980s the Indian economy faced a crises more severe than that seen during the mid 1960s, when India had to accept humiliating conditions imposed by the World Bank and IMF as part of the package that offered credit to bail the economy out of it predicament.²⁶ During the second half

²⁵Secretariat of Industrial Approval, Newsletter, February, 1997, Ministry of Industry, Government of India. pp.6-8

²⁶see Jalan, Biman, The Indian Economy : Problems and Prospects, New Delhi, Viking, 1992, p.15.

of 1980s the fiscal deficit had gone up to 10.1 per cent of the GDP whereas it had only been eight percentage of GDP during 1980-85.²⁷

The Financial Crisis of 1991

The most serious crisis during the early 1990s was the balance⁶ of payment crisis. The interest payments on accumulated foreign debt had put the balance of payments in a situation where, if additional credit was not forthcoming, India may have had to default on its debt service commitments. India's foreign exchange reserves stood at Rs. 2152 crore at the end of December 1990, as compared with Rs.5787 corers at the end of March that year.²⁸ This was well below even one months' import bill. And finally, all of this was related to the fiscal crunch that resulted from a combination of inadequate resource mobilisation and unnecessary government spending, which necessitated deficits to take the internal debt of the government from 37 percentage of GDP in 1980-81 to 52 percent in 1989-90.

In late 1990, there were two overt manifestations of this crisis, rise in the rate of inflation above 10 per cent and widening of the current account deficit.²⁹ The latter followed the oil price increases associated with Iraqi invasion of Kuwait in August 1990.³⁰ The rate of growth of national income over 1990-91 was only 4.5 per cent as compared with earlier projection of 5.5 per cent growth rate.³¹

During this period the trade gap had worsened from 12413 crore in 1989-90 to 16933 crore in 1990-91. It was because the export was stagnated while the import had increased due the increase of oil prices. The current account balance showed a negative trend in the same period from \$ 6837 million to \$ 9680 million. Likewise the crisis the change in the cash reserves was in a deteriorating position during the 1990. It stood at \$ 858 million in 1989-90 and in 1990-91 it was \$ 1132, which reveals that the country's purchasing capacity had decreased during the early 1990s.(see table 2.1)

²⁷ibid, p.15.

²⁸Bhagawati, Jagdish, India in Transition, Oxford, Clarendon Press, 1992, p.164.

²⁹ibid.

³⁰Ibid.

³¹ibid.

Table 2.2
India's Merchandise Trade (Export, Import and Trade Balance)

Year	Rupees in Crores			US Dollar in Million		
	Exports of goods	Imports of goods	Trade Balance	Exports of goods	Imports of goods	Trade Balance
1985-86	11578	21164	-9586	9463	17298	-7835
1986-87	13315	22669	-9354	10420	17741	-7320
1987-88	16396	25693	-9297	12645	19896	-7170
1988-89	20647	34202	-13555	14257	23617	-9360
1989-90	28229	40642	-12413	16955	24411	-7456
1990-91	33153	50086	-16933	18477	27914	-9437

Source : Centre for Monitoring in Indian Economy (Balance of Payment), July, 1996.

Table 2.3
India's Balance of Trade Position

Year	Change in reserves (in US \$ million)	Current Account Balance (in US \$ million)
1988-89	1388	-7996
1989-90	258	-6837
1990-91	1132	-9680

Source : Centre for Monitoring in Indian Economy (Balance of Payment), July, 1996.

Historically, India has had a small surplus in non factor services. This fell slightly in the second half of the 1980s. Changes also took place in other invisible. Transfer receipts were stagnant and this led to a proportionate fall in GDP. There was a substantial worsening after 1984-85 in net factor income, largely because of interest payments on the increased external borrowing from the IMF and other sources, official and commercial.³² In 1984-85 there was a deficit on net factor income of about \$ 1.8 billion, by 1989-90 this had increased to more than \$ 3 billion.³³ As a consequence, the current account deficit widened absolutely. At the end of the 1980s the average current account deficit was more than \$ 7 billion, about three percent of GDP. Similarly, by the end of the decade, there had been large changes in the country's external debt position. According to World Bank Debt tables (1992), India's external debt increased from \$ 20.6 billion in 1980-81 to \$ 64.4 billion in 1989-90.

³²see Joshi, Vijay and Little I.M.D., India, Macroeconomics and Political Economy : 1964-1991, World Bank, Washington D.C., 1994, p.186.

The overall inflation was moderate during the second half of 1980s about seven percent a year. While in 1990-91, the crisis year, overall inflation accelerated to more than 10 per cent and prices of food articles rose more than 12 per cent despite satisfactory harvest. In addition, 1990-91 witnessed a large increase in import prices and also in many domestically administered price, including food procurement. The inflation of 1990-91 was more worrying than India's periodic inflationary bubbles because it was not triggered by a drought. Increased inflation in the economy also made it more difficult to resolve the crisis

The crisis manifested itself through the Balance of Payment (BoP), when the government of India found that available resources even barely enough to pay for two weeks of imports, and that credit was no longer forthcoming from either banks or private investors. The huge deficits in the governments budget, (which were of course related to the BoP problem) led to an erosion of confidence in the ability of the Government of India to do anything about the situation. It may be recalled that the Chandrasekhar government could not present a proper budget in February 1991 and had to remain content with a vote on account in the Lok Sabha.³⁴ NRIs at that time were actually withdrawing their money from Indian Banks, this clearly showed a growing lack of confidence in the Indian economy and its capacity to repay its loans.³⁵ This confidence was eroded in part by the discussion of the V.P.Singh government to write off farm loans up to Rs.10000 per borrower from the commercial banks and it spawned demands for such write offs from co-operatives and other sectors.³⁶ And, the Chandrasekhar government had to pledge gold in return for loans, and to transport this gold from the vaults of the Reserve Bank of India in Bombay to those of the Bank of England in London in April 1991. The situation, clearly was serious.

The analysis of the crisis by the newly elected government in June 1991 was that the country had run into trouble because the Indian economy was inefficient and not in a position to use resources properly. It was this fundamental factor which had

³³ibid.

³⁴Vyasulu, Vinod, Crisis and Response : An Assessment of Economic Reforms, Delhi, Madhyam Books, 1996, p.19.

³⁵ibid.

to be changed if the country was to regain international credibility. And, in the judgements of the Government of India, the way to do this was by; focusing on efficiency and growth in the economy rather than on growth with social justice as in the past ;

Reducing the role of the State in the economy, and to place a greater reliance on market forces in the process of economic growth and development and

Integrating the Indian economy into the global economy, as this would both bring in competitive pressures that would force Indian firms to modernise and upgrade their technologies.³⁷

The New Economic Policy (NEP)

The new congress government under P.V. Narasimha Rao announced the policy of 'economic liberalisation' in July 1991 which basically means the end of Nehru's model of development.³⁸ The envisaged de-bureaucratisation of economic life and the integration of the Indian economy is to the world market inevitably have far reaching effects on India's social structure, as well as opened the new avenue of foreign policy matters.³⁹

The 'New Economic Policy' announced by Finance Minister Manmohan Singh had given due consideration to the question of the economic appeal for foreign capital on which Indian reform projects rely . Whether international investors can be persuaded to invest in India will depend on the country's internal stability. Without foreign capital and technological co-operation, the country will hardly be able to meet

³⁶See Singh, Sukhpal, 'The Political Economy of the Recent Economic Policy Changes', *EPW*, August, 1991, Vol. 26, No.35, p.2045.

³⁷For details, see Nayar, D., *Economic Liberalization in India : Analytics, Experience and Lesions*, Calcutta, Orient Longman, 1995, p. The third point of the liberalisation process was one of the fundamental basis of the Look-East policy. India needs technology and know-how from different countries and also to establish joint industrial ventures within the country and a third country. Many of the ASEAN had started liberalisation process from early 1980s. These countries had maintained huge foreign reserves and capital and accumulated advanced technology. So the co-operation between India and Southeast Asia on this field have a benefit for economic development of India.

³⁸Kothari, Rajni, 'End of Nehru Model', *Sunday Review, Times of India*, 29th December, 1991.

³⁹See Sreedharan, E., 'Leadership Horizon in India : The Impact of Economic Re-structuring', *Asian Survey*, Vol.12, No.31, 1991, p.1203.

the high international standards and raise its very low share of the world market of 0.5 per cent.⁴⁰ India initiated to improve Indian economy through increasing exports, inviting foreign investment in various sectors and mobilisation of resources from international funding agencies like International Monetary Fund (IMF) and World Bank etc. In this regard introduction of privatisation in a number of sectors became inevitable because of difficulties involved in making public enterprise more profitable. On the whole, Indian economy has been moving from mixed economy to a market oriented economy. The barrier in the way of liberalisation is the lack of whole hearted support of some political and bureaucratic elites who think that it takes away their discretionary powers, the leftists and trade unions oppose it primarily because of ideological reasons. Liberalisation of the Indian economy is inevitable due to the following reasons. First, introduction of liberalisation is the result of globalisation of economy. Hence, it is inevitable. Secondly, liberalisation removed the bureaucratic yoke who controlled the lures of India, as economic policy is the late 1980s.⁴¹

The NEP was initiated by the Government of India in conformity with the IMF World Bank conditionalities. The government embarked on a wide ranging reform of the policy regime beginning in July 1991.⁴² The areas of reforms process was stated in (a) the industrial sector (b) the trade regime (c) foreign investment (d) foreign technology (e) the public sector and (f) the financial sector. These policy initiatives have targeted on reducing the crisis deficits in government (public) finance and in the current account of the balance of payment. Under this programmes foreign resources have increased substantially and government allowed more foreign direct investment except some key industry. Rao's foreign mission was mainly looking for economic relations. His delegation always give emphasis to the inclusion of the CEOs of the major industries and officials of the various trade organisations (FICCI, CII, ASSOCHAM) for seeking capital and technological know-how from abroad.

The Impact of Economic Liberalisation on India's Foreign Policy

⁴⁰see The New Trade Agenda : The WTO and India, New Delhi, ICRRER Report, 1992,p.32.

⁴¹Kohli, Atul, Democracy and Discontent : India's Growing Crisis of Governability, Cambridge, Cambridge University Press, 1991, p.306.

⁴²Bhaduri, Amit and Deepak Nayyar, The Intellectual Person's Guide to Liberalization, New Delhi, Penguin, 1996, p.30.

India's NEP has shown a new phase of pragmatism. The Indian policy of self-reliance is important; it ensured a fairly high level of industrialisation and economic well-being. However, it has tended in recent years to make for India's economic isolation from the rest of the world and perhaps also prevented India from drawing upon the technological developments in the advanced states. Economic interdependence is a fact that of life in present day global affairs. India was perfectly conscious of the new policy, which enabling India to take an independent political and economic decisions. It necessitates the government to carefully monitor such potential changes to India's policy of non-alignment, which emphasised the policy of self-reliance and balancing the benefits of independence, sovereignty, and equality among nations.⁴³

A major feature of the Nehruvian heritage in India's foreign policy was its opposition to the Cold War polarisation. This was the major reason why independent India established its distinct identity. One of the notable features of the present post-cold war international relations is that they represent the achievement and fulfilment of the Nehruvian heritage. India naturally sought to adopt its foreign policy to the new strategic environment.⁴⁴ India under Rao opposed the proliferation of nuclear weapons its listing. India also supported the stand for reforming of international organisation etc. Despite the welcome end of the bipolar world and the emergence of unipolar entity (under the hegemony of the United States) India continues to oppose such hegemonistic tendencies. Instead, it is supportive of the NAM's demand for democratisation of the international organisations and consensus decision making on all major international problems and disputes.⁴⁵ In effect, India has gone one step beyond the Nehruvian heritage evenwhile retains the main features; Non-Alignment, maintenance of world peace, peaceful settlement of international disputes, economic development of the third world countries with international assistance etc.

Of course, there have been some deviation from the Nehru heritage in the domestic field also. The new liberalisation policy has annulled the regulation of the

⁴³see Josh, Harcharan Singh, India's Foreign Policy, New Delhi, Surjeet, 1989, p.40.

⁴⁴Kapur, Harish, India's Foreign Policy : Shadows and Substance, New Delhi, Sage, 1994, p.36.

⁴⁵Joshi, Manoj, 'After Jakarta', Frontline, 9th October, 1992., p 37

old' mixed economy' of Nehru era, as well as globalisation of the once autonomous economy, based on self-reliance and import substitution. We have also modified the old policy for good with adequate reason for the disinvestment of public enterprises, which for years, have become an eye sore, because of this poor performance. To say that India continues to maintain that old mixed economy is true only in the formal sense of maintaining both public and private enterprises, but not in the sense of the old priorities. It is much better and more honest to confess that the old brand of mixed economy is no longer valid or relevant, partly because it has not been conducive to the public good or the attired international economic policy change.

✓ The economic development is the basis of 'Look-East Policy'. There is very little that the Indian state can claim to its credit on development today, unemployment is endemic and is the single most important cause of current insurgencies and law and order problem leading to violence with the country. Instability and insurgency are as much a law and order problems as they are problems of economic cohesion. Without domestic stability a nation cannot follow on independent and future oriented foreign policy. Economic prosperity and societal stability go hand in hand. Economic development encompasses a whole range of new activities including ensuring access to natural resources at affordable prices, keeping sea

lanes of communication open, developing relations with prosperous regional organisations and ensuring a flow of foreign investment into the country. These are major issues of national interest.

To ensure a continued economic prosperity, India will need to globalise at a faster pace. This should be done with special emphasis on regions with greater economic potential. Without doubts, it is the Association of South East Asian Nations (ASEAN), East Asia (Japan, Korea and China) and the large Asia Pacific that offers maximum scope. Besides, bilateral relations with a number of nations around the globe needs to be given a further boost. The principal thrust of the policy should be to develop better relations with these countries, concentrating on these with more immediate prospects, what needs to be attempted promptly is India's acceptance in the

Asia Pacific Economic Co-operation (APEC), by projecting itself as a responsible global player.

The process of modernisation and economic liberalisation of Indian economy has also diluted the excessively dominant role which government departments and civil servants have played in economic management. Increasing autonomy in the conduct of foreign economic relations and structuring foreign economic co-operation would hopefully, enable the Ministry of External Affairs (EM) to play a facilitating or a catalytic role in furthering India's economic interest through the instrumentality of economic diplomacy.

From 1991 onwards the MEA has been giving primary concern to India's foreign economic relations. Thus MEA and Indian embassies abroad had to explain, rationalise and justify keeping our foreign economic interests on track. Consequently, strengthened Economic Division in MEA. India ensured that there was an adequate flow of information between India and foreign countries on relevant economic matters. This was facilitated through seminars, discussions, investment meetings, exhibitions and workshops on foreign trade. For the first time, India participated in the international economic conference held annually at Davos in Switzerland. Prime Minister Rao went twice to Davos during his five year term. He was accompanied by a union minister and delegations from the private sector.⁴⁶

The first visit of Indian Prime Minister, Rao's trip to Thailand from April 7 to 9 redefined Indo-Thai relations in the post cold war era. Rao had on his hand the job of selling his package of economic reforms to the Southeast Asian community.⁴⁷ A huge business team also accompanied with him from the organisation like Federation of Indian Chambers of Commerce and Industry(FICCI), Confederation of Indian Industry(CII), Associated Chambers of Commerce(ASSOCHEM). They interacted with fellow Thai business community for joint industrial ventures between the two countries. The Prime Minister discussed with the business community on technological collaboration and joint ventures. Then Indian Foreign Secretary

⁴⁶See Dixit J N, Across Borders : Fifty Years of India's Foreign Policy, New Delhi, Picus 1998, p.20.

⁴⁷ Suryanaryana S, Frontline, 7th May, 1993, p.39.

J.N.Dixit made secret trip to Yangoon to sign a agreement on narcotic control and discuss bilateral trade issues. This visit was the second visit to one of the Southeast Asia country within a year. In 1992 Rao paid a visit for Jakarta for attending NAM meeting.

Another significant area of co-operation with the Southeast Asian countries was the Indian offer to provide nuclear technology for peaceful use. Through the offering of nuclear know-how may be seen as a routine efforts to market commercially India's high tech expertise, it was also intended to get Thailand to decrease India's economic problems through foreign direct investment. Indo-Thai trade had increased remarkably in recent years, from US \$ 409 million to US \$ one billion in 1991-92.⁴⁸ Prime Minister Rao underscored the importance of making the Asia Pacific region a 'springboard for (India's) leap into the global market place'.⁴⁹ These developments indicate that sharing prosperity regionally though economic blocs is commendable. A significantly orientation can be discerned in improved relations with ASEAN countries. This involves defence co-operation including naval exercise, training and defence industrial co-operation.

Muhamad Ayoob (1990) argues that India's relations with Southeast Asia have been biased in favour of political strategic calculations to the relative neglect of economic factors.⁵⁰ Southeast Asia has increased in importance both as a supplier of goods to India and as an alternative market for Indian goods. If economic reforms are maintained and the annual growth rates sustained consistently over a period, then India could play the same role for Southeast Asia that China has been playing for Northeast Asia. Yet despite its size, location and historical role in shaping the evolution of Asian civilisation, India is an interested observer, rather than a participant in their emerging key grouping. It has made it clear that it would like to join APEC but does not wish to push the issue seriously.

⁴⁸ D'cost Anthony P, Frontline, 16th December, 1994, p.53.

⁴⁹ ibid

⁵⁰ Ayoob Muhammad, India and Southeast Asia: Indian Perception and Policies, London, Routledge, 1990, p.89.

International Environment

The shifting post cold-war paradigms have brought about fundamental changes in the countours and contents of the emerging 'New World Order'. The former president of the US, George Bush had ambitiously opined during the build up to the Gulf war, that the new world order would usher in the prospect of a world free from the threat of terror, stronger in the persuit of justice, and more secure in its quest for peace.⁵¹ The quest for peace which has been outlined as one of the major objectives of the new world order, the ethnic problems in various countries like Yougoslavia, Ruanda, Afganistan and Somalia was posing severe challage to the evolution of an integrated world order. Indeed, the movement for self assertion, national identity, and demand for religio-cultural autonomy compelled to rethink as to how the goal towards a preferred 'just world order' or global civil society can be attained.

A major disagreement was over the nature of the new world order. Scholars argued that it is unipolar in nature and that the US is the sole superpower in the new world order. While advocates of other side opined that the post cold-war arena is multipolar in character, with the emergence of major economic powers such as Germany, and in a wider sence the European community. More prominence is visualised for Japan, the countries of the - Eastern Pacific Rim - South Korea, Taiwan, Hong Kong and Singapore. Above all, China which is being presented as the new Asian giant is also expected to play a far greater role in international politics. China's phenominal economic growth, coupled with its nuclear and balistics missile capability prepares it for the position of an economic and strategic super power.⁵²

During the cold war period Indian foreign policy of Non-alignment occupied a high moral ground, and it was the guiding principle in international politics. It was reiterated that a country should have the freedom to make its own allies and freinds. And in time, this principle was to become a powerful movement of the developing

⁵¹See Chandoki, Neera, "New World Order : Implications for India's Domestic and Foreign Policy", in India's Foreign Policy : Agenda for Twentifirst Century, Foreign Service Institute, New Delhi, 1998, pp.73-85

⁵²ibid.

world. India has historically been closer to the socialist block. For, it was the support of the powerful Soviet Union, especially for the issues raised by the Non Aligned Movement (NAM), which ensured some measure of success for India's leadership of third world in international politics.

Today, the non aligned movement has been rendered weak by its own contradictions. It is true that non aligned movement has been important in international politics. Representing almost two third of the world's population, it held a vision of peaceful international society. The gradually widening membership of the movement brought into the fold, countries which have sharply diverging perspective on many issues. Therefore, the non aligned movement came to be united more by a focus on topical external issues, than on reaching an ideological consensus within itself. It has failed to become an active cohesive force by collaborating on specific issues. The fragile status of South-South cooperation is an indication of this. It has neither collective resources nor the institutional means with which it can carry out combined perspective.

The trend toward globalisation was, ofcourse brought about by the revolution in communication technology, diffusion of power, explosion of information and an increasing trend of 'borderless global economy'. The World Trade Organisation was regulating the global trade within its foreign policy frame work as accepted by its member nations. The protectionist policies in trade by the powerful economic groupings such as European Union, NAFTA and APEC have attained greater strength. The conditionalities imposed upon the third world countries on the granting of aid through the World Bank and IMF, and the question of transfer of technology from Group 7 (G-7) along with the increasing interference of Transnational Corporations (TNCs) on a global scale had a serious impact on third world economies.

In this scenario, India need to build-up strong regional alliances to strengthen his won position in the 'Third World' and also in the present international order. For strengthening its economy, India moved towards the Asia Pacific - one of the growing economic regional powers. The economic centre of gravity in the world is shifting surely and afirly to a larger 'Asia Pacific region' Since the post Cold War period, the

Asia Pacific has been consolidating and strengthening its resilience and also interacting as a group with the world economy. The ASEAN is cohesive group of ten nations having a population of 500 million. As an organisation, it has already developed substantial political clout and interacts on equal terms with the US, Japan and EU.

The concept of 'regional powers has acquired a certain relevance in the post cold-war era. They have now, a much greater autonomy to play a meaningful role in today's world. They impose certain responsibilities on themselves; to maintain stability within their region and promote an environment free of conflict where peaceful development may be more cohesive. This has also led to the formation of a number of regional groupings or organisations, most of which aims at promoting economic co-operation, but often with multiple roles.

To sum up, the context of foreign policy domestic compulsions are the fundamental basis of foreign policy. The afore said domestic factors has to led to the new orientation of India's foreign policy in the post-Cold War period.. Many of major domestic industries had acquired the technological know how from erstwhile Soviet Union. So the domestic industry and financial sector faced severe problems because of Soviet disintegration. Thus India turned its direction towards the East and Southeast Asia with co-operation of these countries. Rao government enjoyed full term of office by means of economic development and created political stability.

Chapter III

Economic Dimensions of the Look-East Policy

Since the early 1990s, India has sought to increase its economic, political, security and cultural ties with East and Southeast Asia. This is India's version of a "Look East" policy or it might be described as India's passage to Asia.¹ This can be accomplished by favouring both trade and investment partners in the Asia Pacific region. With respect to trade, geographical proximity and lower transportation costs can result in complementarities in production allowing economies of scale. The Asia-Pacific region was also one of the fastest growing region in the world, suggesting a greater 'demand pull' factor in export dynamics.² India is not a member of any trading blocs, but has a prospective option in the medium term to join either the Asia Pacific Economic Co-operation (APEC) or ASEAN group of countries. The South Asian Association for Regional Co-operation (SAARC) is one other options that India is exploring, though a less economically promising one. Trade creation and growth will be an important feature to consider, and in addition it offer a defined strategy for optimising export revenue.

The ASEAN countries have traditionally been richly endowed with the natural resources (rubber palm oil, tin, cocoa, coconut, forestry products, etc.) and agro products (rice, pulses etc.). Over time, ASEAN countries succeeded in effecting a massive diversification of their economies in the 1980s away from primary and towards manufactured goods (including hi-tech products such as electronics in Singapore and Malaysia) and services (such as airline shipping, tourism, telecommunication, banking, construction, etc.). As against the Asian and Latin American countries, which pursued an import substitution strategy of industrialisation, the East Asian countries went for an export oriented one. In the course of the change in the composition of trade, new complementarities, started

¹See Limaye Satu P, 'Message to India: Comeback to Asia', Asian Wall Street Journal, 20th December, 1993.

emerging and getting consolidated between the Indian economy and the ASEAN economies especially of the ASEAN-3 (Singapore, Malaysia and Thailand). These complementarities enhanced the scope for further expansion of trade in goods and services between India and the ASEAN economies in the 1990's. India can learn a great deal from countries like Singapore in the area of what Mukul Asher has termed the "software of globalisation".³ This learning will enable India to become a more attractive location for the Multinational Co-operation. This will also help India to increase the export-competitiveness of its goods in the global markets.

The new complementarities between the Indian economy and the economies of most ASEAN countries are visible in the area of investment (and associated technology) flows. Investment flows lead to additional trade creation as these born out by global experiences. The high levels of FDI which has been undertaken by East Asian countries ever since the beginning of 90's can be attributed mainly to the high levels of savings in their economies. The hard currencies of Singapore compel them to undertake FDI abroad, in order to reap competitiveness of the international level. The Less Developed Countries which vast pools of cheap labour, particularly India, which has high levels of cheap technical labour is a good avenue for such FDI. They show interest in varying degrees, to invest in India, under the liberalised economic policy regime related to the FDI. China and India in Asia provide major attractive destinations for locating such investments. Newer and larger market of China and India are further opening up and competing for attracting FDI. The 'flying geese' pattern of FDI (especially from Asian sources including Japan, Taiwan and South Korea) which benefited the ASEAN economies in the late 1970's and in the 1980's had strengthened their economies. After the liberalisation of these economies they had surplus capital for investing capital in another country. The investors of ASEAN countries including Singapore , Malaysia, Thailand and Indonesia are investing and relocating their units in and elsewhere in Asia.

²See Gupta S P, 'India's Increasing Eastern Orientation to Trade and Investment : Conflict and Challenges', in Sandy Gordon and Stephen Henningham (ed.) India's Look-East : An Emerging Power and its Asia Pacific Neighbours, SDSC, Canberra, 1995, p.72.

³Asher, Mukul. G, 'India and Software Globalisation', Economic Times, December 31,1992

The growing regionalisation of world trade exemplified by the single European Market and the expansion of North American Free Trade Area (NAFTA) from January 1994 has clouded the prospects for sustaining the high rate of growth of exports of ASEAN countries experienced in the 1980's. ASEAN countries are busy at devising appropriate strategies in response to the emergence and consolidation of the regional trading blocs.⁴ The ASEAN countries can also use India as possible springboard for the other neighbouring markets of the SAARC. The other major response by the ASEAN to the EU and NAFTA is the creation of its own regional trading bloc, the ASEAN Free Trade Area (AFTA). The ASEAN agreed to the creation of AFTA at the January 1992 meeting of the ASEAN Foreign Ministers held at Singapore.⁵ The process for setting up the AFTA began on January 1, 1993. AFTA is scheduled to become fully operational with zero (or nearly zero) common effective preferential tariff for the member countries by the year 2008 AD.⁶

Overview of the Relations between India and Asia-Pacific

India's forays in to the south east Asian region had ignored until 1980's. But it had to sustain its economic presence in the region by facing stiff competition from Japan in the area of trade and aid. ASEAN states were more eager to emulate the economic development of Japan, and found it more lucrative to respond to its economic overtures. Japan was in a position to take certain initiatives in the South-eastern region like convening the Southeast Asian Ministers Conference for Economic Co-operation, and subsequently India was kept out of the gathering. Japan also wield considerable influence in the Asian Development Bank, being the largest Asian to the Bank. Thus Japan's economic reach in the Southeast Asian region, both in bilateral and multilateral terms, in comparison to India's remained significant.

⁴For the dilemmas facing ASEAN countries and their possible specific response to restructuring taking place in Europe, see Charan Wadhwa, "ASEAN and its Economic Relations with a Restructured Europe", in Kanta Ahuja, Huub Coppens and Herman Vander Winsten (eds.), Regime Transformations and Global Realignment, New Delhi, Sage, 1994, Chapter-14.

⁵The Hindu, January 17, 1992

Table 3.1

Some Key Economic Indicators of India and ASEAN

	Brunei	Indonesia	Malaysia	Philippines	Singapore	Thailand	India
Population (million), 1992	0.3	184.3	18.6	64.3	2.8	58	883.6
Area (1000 sq.km)	6	1905	330	300	1	514	3288
GNP percapita (1992)US\$ (1990)	15200	670	2790	770	15730	1840	310
Growth rate 1980-92 in %	-	4.0	3.2	-1.0	5.3	6.0	3.1
Annual rate of Inflation (%) 1970-80	-	21.5	7.3	13.3	5.9	14.5	8.4
Annual rate of Inflation (%) 1980-92	-	8.4	2.0	14.1	2.0	11.4	8.5
Life Expectancy, 1992	-	60	71	65	75	69	61

Note : For Malaysia, the figures are for 1984.

Source : World Development Report, 1994, pp.166-167

While the combined population of the ASEAN countries is only three eight of India, their combined GDP is nearly twice that of India. It can be observed from Table 3.1 that the average annual growth rate of India has been well below that of most of the ASEAN countries. The Philippines recorded the slowest growth rate as well as the highest inflation (14.1%) between 1980-'92. Thailand and Singapore achieved impressive annual growth rate of 6.0% and 5.3 per cent respectively between 1980-'92. The disparity in per capita GNP within the ASEAN countries is very wide with Singapore and Brunei occupying the top end of the scale. The World Bank has classified them as high income economies. Malaysia an upper middle income economy. Philippines and Thailand as middle income economies, and Indonesia as a low income economy. The citizens of ASEAN countries enjoy a far superior standard of living than their Indian counterpart. India's per capita GDP (1992) of US \$ 710 is not even half that of present ASEAN country, Indonesia.

The government of Japan has guided economy by restraining spending, keeping losses relatively low and maintaining price stability rather than by intervening in private sector. The MITI (Ministry of International Trade and Industry) has formulated the industrial policy, which was necessary for Japan's post war

development and economic success. And also the factor in Japan's success has been the 'fierce competition and rivalry' that have characterised domestic and foreign trade.⁷ Besides many factors, the secret of Japan's growth can be stated in simple terms a basically for market economy, functioning effectively with minimal government intervention since the war. Japanese success has been in spite of rather than because of government tinkering. As most of the Asian tigers, adopted models simple to Japan's export-led growth.

The visit of Prime Minister Rajiv Gandhi to Thailand and Indonesia in 1985 was an attempt for better political understanding with the regional states. The ASEAN states renewed interest towards India was due to the positive signs shown by the new Indian government (Rajiv Gandhi) to liberalise the economy and move towards fewer government controls leading to a more competitive and open economy. This has looked upon with great anticipation by ASEAN. For the first time, it seemed as if the rhetoric of broad based economic co-operation mutually benefited India and ASEAN, would stand a good chance of realisation. Yet another reason which stimulated ASEAN states interest towards India was the economic problems confronting them following the global recession which started in the wake of the second oil prices hike. After nearly two decades unprecedented growth the ASEAN countries faced lower rate of growth in 1985 and 1986.⁸ The economic recession stimulated ASEAN interest in economic relations with India. Even Singapore which was most critical of India's policy towards Kampuchea, was showing signs of flexibility. Economic imperatives were including both India and ASEAN towards a pragmatic relationship which meant that relations could move beyond the Kampuchean issue.⁹

Adopting a regional approach to trade and investment, and seeing the potential for both in the ASEAN region, the Indian government set up the India Investment Centre in Singapore 1985. This was shortly followed by the establishment of a representative office of the Export-Import Bank of India in early 1986 in Singapore.

⁷Murthy, Narasimha P.A., 'India and the Pacific Region : Indo-Japanese Relations', M.Rasgotra, V.D.Chopra and K.P. Misra (eds.) India's Foreign Policy in the Nineties, p.140.

⁸Thanat Khoman, 'Assessing ASEAN: The Emergence of Southeast Asia' World Affairs, Vol: 1, No:3, Sept. 1987.

Also in June 1985 India held a Trade Fair in Kuala Lumpur in which 50 Indian manufactures displayed items such as machine tools, batteries, tractors, farm equipment boilers, power generating equipment etc. This is fair, the first of its kind in an ASEAN country by India, attracted numerous orders. The Trade Fair Authority of India also held an exclusive Indian trade exhibition in Singapore in April 1987.¹⁰

Indo-ASEAN Economic Relations In The Post Liberalisation Period

The Congress government under Mr. Narasimha Rao immediately upon assuming office in June 1991 undertook bold initiatives to ride the country of certain moribund economic policies. The grave economic crisis faced by the country in the form foreign debt, budgetary deficit and foreign exchange crunch forced policy makers to transform the country is inward looking, sacked economy into one tolerant of free market and foreign investment. India realised the importance of the East and Southeast Asia countries who were far ahead of India in market oriented strategies. Together those factors led India to embark on more enlightened trade, investment and monetary policies included streamlining on procedures, deregulation, delicensing automatic approvals to foreign investment in a wide area and opening up new areas of private sector investment.

The Indian government started organising seminars and exhibitions abroad to publicise and disseminate information about trade and investment opportunities in India. As India's Finance Minister put it, the marketing of new India in the ASEAN region was appropriately begun in Singapore.¹¹ The ASEAN states were equally excited about the prospects of exploring the Indian market following the liberalisation measures and in that spirit offered India an entry into the region as on ASEAN sectoral dialogue partners (The fourth summit of ASEAN Heads of Government held in Singapore in January 1992 granted India a sectoral relationship in the area of trade investment and tourism).¹² This was followed by a meeting between ASEAN and Indian officials in New Delhi in March 1993 to identify specific areas of collaboration

9Vickery, Michael., Cambodia 1947-82, Canberra, Allan and Urwin, 1984.

10'Alleging Foreign Policy to Economic Liberalisation', EPW, July 26, 1987

11Times of India, 28th November, 1991.

12Goshal, Baladas., 'The Asian Identity', World Focus, June 1997.

within the designed sectors. This meeting also led to the establishment of the ASEAN New Delhi Committee(ANDC) comprising ASEAN heads of mission in New Delhi; the ASEAN India Joint Sectoral Co-operation Committee(AIJSCC) which is an intergovernmental consultative body; and the ASEAN India Business Council(AIBC) comprising private sector representatives.¹³ India also offered to set up a fund under the Indian Technical and Economic Co-operation Programme for the implementation of projects in the agreed upon areas¹⁴.

Table 3.2
India's Trade with ASEAN Nations (in US \$ million)

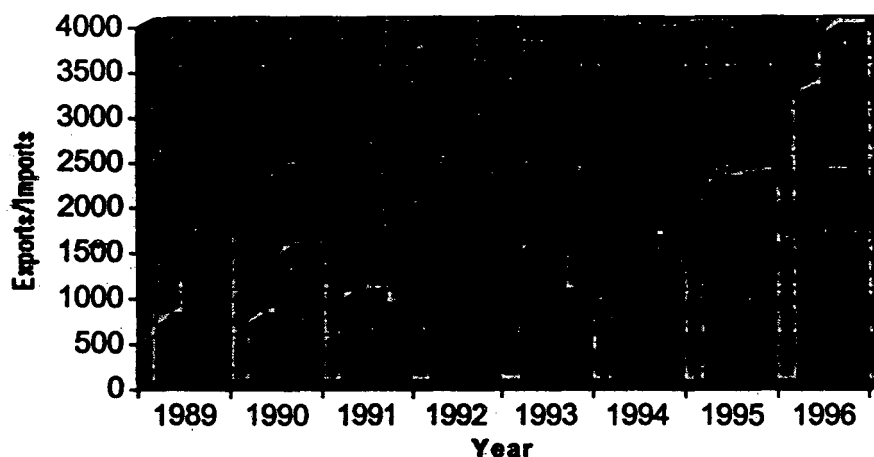
Country		1989	1990	1991	1992	1993	1994	1995	1996
Thailand	Export	132	201	199	242	318	374	461	570
	Import	51	62	49	67	54	146	146	264
	Total	183	263	248	309	372	520	607	834
	X-M	81	139	150	175	264	228	315	306
Malaysia	Export	139	126	203	222	232	250	355	552
	Import	628	546	391	534	227	432	775	1228
	Total	763	672	594	756	459	682	1130	1780
	X-M	-489	-420	-188	-312	5	-182	-420	-676
Singapore	Export	371	308	386	515	727	738	807	770
	Import	834	689	311	687	593	720	966	1785
	Total	1205	997	697	1204	1320	1458	1773	2555
	X-M	-463	-381	75	-172	134	18	-159	-1015
Philippines	Export	41	21	64	77	48	95	122	741
	Import	81	4	31	13	7	10	15	196
	Total	122	25	85	90	55	105	137	937
	X-M	-40	17	33	64	41	85	107	545
Indonesia	Export	50	92	145	143	200	253	501	610
	Import	76	173	67	73	88	283	384	433
	Total	136	265	212	216	288	536	885	1043
	X-M	-26	-81	78	70	112	-30	117	177
Total	Export	773	748	997	1199	1966	1710	2246	3243
	Import	1670	1474	849	1376	969	1591	2601	3906
	Total	2443	2222	1846	2575	2935	3301	4847	7149

Source : IMF Direction of Trade Statistics Year Book 1997

¹³ibid.

¹⁴Times of India, March 18, 1993

India's Exports and Imports to the ASEAN (1989-96) in mn US \$



Source : IMF Direction of Trade Statistics Year Book1997

Using the data from 1989-96 of the export to and import from ASEAN countries to India to regression equations is generated to calculate the rate of growth of exports and imports

The export equation reads as;

$$\log X = -298.99 + 0.152t \quad R^2 = 0.544,$$

(-367) (0.057)

It is noteworthy that the R^2 is greater than 0.5. The equation reveals that over the above mentioned time period, there has been a trend growth of export is 15.2 per cent per annum.

The $\log M = -96.57 + 0.5t \quad R^2 = 0.35,$

(0.-182) (0.182)

Source : IMF Direction of Trade Statistics Year Book1997

But, for the import equation, the R^2 is less than 0.5, that is, it is 0.35, which makes the equation statistically insignificant. But the equation reveals the over the above mentioned period, there has been a trend rate of growth of import is 5 per cent per annum. From the, it is clear that the rate growth of export from India(15%) is greater

than the rate of growth of imports (5%) from the ASEAN region. This shows that possibility of the trade balance is favouring to India in the long term.

There are fourteen Indian ventures in Indonesia in steel, textiles, cement and industrial machinery, with direct Indian participation and financed by overseas Indians. Notable joint ventures during the post-liberalisation was Essar Gujarat, which had set up a cold rolled steel mill at an estimated cost of US \$ 75 million. Joint investments by Indian companies in Indonesia amounts to US \$ 217 million and the India ranks eighteenth among the foreign companies investing in Indonesia, down from fourteen in 1990.¹⁵ Some Indian companies had been engaged in setting up projects in Indonesia such as a sugar project in Caming, South Sulawesi; established by Triveni Engineering Works, and cement plant in Padang, West Sumatra, set up by the Project and Equipment Corporation in India.¹⁶ The Indian Railway construction was also engaged in building two flyovers in Jakarta, after completing a railway electrification project in Bekasi and Manggarai, both in Jakarta.¹⁷

The Indonesian joint ventures in India in the field of chemicals and paper was established in Pune and Madras. During the Joint India-Indonesia Business Council (JBC) was met in New Delhi on 19th November 1994.¹⁸

India's relation with Indonesia has improved considerably. An agreement on the avoidance of double taxation was signed in 1988 and a memorandum of understanding on agricultural co-operation was signed in 1992¹⁹. The bilateral trade between the two countries rose to US \$ 536 from US \$ 136 million in 1989 (see Table 3.2). Major Indian exports to Indonesia are cotton, yarn, dyes, machineries and equipments for the textiles, vehicle components (trains, trailers, motor cycle etc.) and building materials. Major imports from Indonesia are hides, fertiliser, tin, nickel, crude palm oil, chemicals and petroleum and petroleum products.²⁰ The trade balance

¹⁵AsiaWeek, January 23, 1996

¹⁶Sreedharan, Kripa ASEAN Region in India's Foreign Policy, Dartmouth, U.K., p. 215

¹⁷ibid.

¹⁸ibid.

¹⁹India Today, September 16, 1992.

²⁰Wadhva, Charan D. op cit

between India and Indonesia which was in favour of Indonesia before 1990, turned out to be in favour of India ever since (see Table 3.2).

Malaysia has consistently enjoyed a trade surplus with India since the 1980s. Malaysia tried to reduce its trade surplus of US \$ 384 million in 1987 by awarding contracts worth US \$ 192 million to Indian Companies to build projects such as a new airport and three bridges in Sarawak worth about US \$ 70 million²¹. Since trade was substantially affected, Malaysia was also keen on India's diversifying its imports by consumer goods.

Malaysia has attracted the largest number of Indian joint venture. There are close to two dozen such ventures operating in Malaysia. The multipronged approach included an inter-shipping agreement and awarding India US \$ 41 million contract to build the Sungai Piah hydro electric project in Perak²². In 1993, Bharat Heavy Electrical Ltd. (BHEL) constructed two 500 MW gas turbine and boilers for Malaysia's national power company Tenaga Nasional Bhd in record time²³. The project was worth US \$ 800 million IRCON has been involved in consultancy and bridge construction project for Malaysian Railways.

Dr. Mahathir recalled that both in India and Malaysia shared membership of many overlapping international groupings which they had, common perspectives²⁴. Foreign Minister of Malaysia, Datuk Abdullah Ahmad Badawi appealed to Malaysian investors to 'join hands with their Indian counterparts particularly, in joint ventures project related to the tourism industry, manufacturing of automobiles and spare parts and food industry²⁵.

The two way investment relationship between India and Singapore from the ASEAN region have been forefront after India launched economic reforms in June 1991. Singapore was the tenth largest investor of FDI in India till 1995. The largest private sector joint venture involving forty per cent Singaporean equity and forty

²¹The Hindu, November 1, 1992.

²²Abreu, Robin, 'Pick of the East', India Today, July 31, 1994, p.91.

²³ibid.

²⁴Business Times, October 24, 1994.

equity by TATAs (and the balance by the Government of Karnataka) established Information Technology Park in Bangalore. The visit of Singapore Prime Minister Goh Chok Tong has created a very favourable environment for further investment flows from Singapore in some industries like chemical and services such as construction, real estates, warehousing, banking, shipping, and financial services. The Madras-Singapore Corridor (hi-tech industrial park) in Madras, Techno Park at Trivandrum are another major project involving co-operation between the two countries. Indian ventures having tie ups with Singapore companies are on the rise, from 17 in 1991 to 34 in 1992 and 42 in 1993. During Prime Minister Rao's visit to the Republic in September 1994, deals for 12 joint ventures worth S \$ 800 million were signed.²⁶

Vietnam had initiated to liberalise their economy in the early 1990s only. It needed more capital and low cost technology. Vietnamese market is opened for acquiring capital and investment after the liberalisation. Indian companies have been active in making their presence felt in Vietnam. The ITC-Global trading corporation has set up operations in Vietnam in 1992 and is helping to develop Vietnam's agriculture. The R.P. Goenka Group has entered into a memorandum of understanding with Vietnamese firms for managing rubber plantations and for setting up an automobile tyre unit in Vietnam.²⁷ The Indian private enterprises can exploit very largely the new economic market.

Thailand-Indo bilateral trade can at best be described as modest. Prime Minister Chati Chai Choonhavan's visit to India in March/April 1989 was the highlights of such on effort. Fifty five prominent Thai business man and individuals accompanied the Prime Minister. During the visit both sides signed an agreement to set up a joint Economic Commission to improve trade joint ventures. Thai Thai Prime Ministers spoke of his desire to built an 'economic bridge' across the Andaman Sea between western Thailand and Eastern India.²⁸ This time was repeated by the then

²⁵Economic Times, November 4, 1992.

²⁶India Today, September, 1994

²⁷Hindustan Times.

²⁸Quoted from Sridharan, Kripa, ASEAN Region in India's Foreign Policy, Dartmouth, UK, 1998, p.213.

Deputy Prime Minister, Mr. Supachi Panitchpakdi who envisioned Thailand acting as a bridge between the high growth Pacific Rim and the promising India subcontinent.²⁹ Prime minister Rao visited Thailand in April 1993 to provide a boost to economic ties between the two countries. Indo-Thai trade has registered some increase in the middle of 1990s with India enjoying a hefty surplus.

India ranks as the fourteenth largest investor in Thailand. The number of Indian joint ventures in co-operation in Thailand in mid 1994 amounted about forty, with a capital of US \$ 24 million but representing only about 6.6 per cent of the total foreign investment in that country³⁰, ranging from chemicals to textiles. Between 1992-94 Thai and India companies put together nineteen collaborations in India. The Thai investors are interested in the sectors of telecommunication, food processing and tourism. Repeatedly, Thailand has also been keen to seek India's assistance in nuclear power generation.³¹

Although ASEAN states have grudgingly recognised India's industrial technological and scientific progress, the image which predominates in the region is an India weighed down by enormous economic problems. Indian poverty, economic inefficiency, bureaucratic corruption etc. have always had the benefits of globalisation and liberalisation era. This has usually led to a cautious approach in trying closer ties with India.

The pattern of bilateral economic relations between and the ASEAN states has not been uniform in the economic field. In the economic realm, ASEAN states adopt a strictly one-to-one relationship with India. India has had relatively more economic transactions with Malaysia and Singapore than with Indonesia, Thailand, The Philippines and Brunei. Like wise these states have favoured interactions with India at different times, fuelled by their own particular needs. Indonesia and Malaysia over the years have been more keen to seek Indian collaboration at the level of intermediate technology to enhance their own economic development. India's understanding with Malaysia had reduced the trade gap in the 1990s. Indonesia has also begun showing

29ibid.

30ibid.

interest in increased trading with India, especially in products like palm oil, thereby leading it to compete with its ASEAN partner Malaysia in exploiting the Indian market. Lately, Thailand and Singapore have begun exploring the potentials of the vast Indian market. For Singapore, the Indian liberalisation measures, especially in high tech area has meant a great deal with the emphasis on high value added capital and technology intensive goods and services. Indian economy opened at a time when Singapore was embarking on its much publicised attempt to build the external dimension of its economy in order to sustain its spectacular growth.³²

Exploring the opportunities in India has therefore, become a conscious policy choice which India has openly welcomed and encouraged. India sees benefit in the 'Singapore Connection' beyond the level of bilateral trade and investment even though these are of significant concern, India is also pursuing a long term goal by looking at Singapore as a staging for entry into the Asia Pacific region.

Major interest of ASEAN countries since post-reform has improved significantly. With the establishment of South Asian Association for Regional Cooperation (SAARC) emphasis was also placed on constructive engagement between ASEAN and SAARC. All the visiting Prime Ministers, Dr. Mohathir (1987), Mr. Lee Kuan Yew (1988) and General Chati Chai (1989) emphasised the need to develop closer ties between the two regional bodies. The countries belonging to both these groupings have also shared common concerns regard to certain global economic issues.

Indo-Japanese Economic Relations

India's first priority vis-a vis Japan is expanded economic ties especially attracting greater direct investment, increasing trade and maintaining a high share of Japan's overseas development assistance. Japan is a country of market oriented, private sector dominate growth model and a member of G 8 nations. Japan has begun to take a greater interest in economic opportunities India for a number of reasons.

³¹Hindustan Times, April 8, 1993

These include India's economic reform since 1991, the country's low labour costs, particularly compared with rising costs in the Newly Industrialised Countries (NICs) and with ASEAN appreciation of the size of India's domestic market and its demand for consumer goods, growing regard for Indian labour skills, especially in areas such as computer programming, the possibility of using India as an export base to markets in the Middle East, Africa and Eastern Europe.³¹

After the initiation of the liberalisation policy Japan had sent official economic missions to India in 1991 and 1994 to assess policy changes.³⁴ A number of high profile private sector delegations, such as one from Keidauren, the powerful Japan Federation of Economic Organisations have also explored economic trends. A major indication of growing Japanese interest in India's economy has the January 1995 visit of Ministry of International Trade and Industry (MITI) chief, Ryutaro Hashimoto.³⁵ This was the first ever visit by a MITI minister to India. The Japanese government, more than the private sector, has thus far been at the forefront of economic engagement with India by highlighting and supporting opportunities for Japanese companies. More substantially, MITI Minister Hashimoto announced seven initiatives to help upgrade economic ties with India, including a US \$ one billion credit line to Japanese companies investing in the country, lowering the export insurance and investment premium rates for India, easing screening requirements and establishing a second branch office of the Japan External Trade Organisation (JETRO) in Bombay.³⁶ The Japanese government has also assured a presence in the Indian economy through its significant official development assistance (ODA) programme. During the bilateral discussions the Japanese officials insist that the development of overall Indo-Japanese bilateral relations, including political dialogue will depend

32Quoted in Sridharan, Kripa, ASEAN Region in India's Foreign Policy, form the Kripa Sridharan, "The Evolution and Growth of India's Singapore Relations", in Yong Mun Cheong and V.V.Bhanoj Rao (eds.) Singapore India Relations A Primer,

33Murthy, Narasimha P.A., 'India and Pacific Region : Indo-Japanese Relations', in K.P.Misra (ed.) India's Foreign Policy in the 1990s, New Delhi, Patriot, 1990, pp.179-88.

34Madhavan, A., 'The Post-Cold War Equations', in Kamlenra, Kanwar (ed.) India-Japan : Towards a New Era, New Delhi, UBS, 1992, p.120.

35The Hindu, 15th January, 1995.

36See 'Japan to offer \$ one billion in Credit to encourage investment in India', Asian Wall Street Journal, 9th January, 1993, p.3.

significantly on the level of economic co-operation.³⁷ They argued that only when Japanese businesses are active in India will political leaders and the society generally give greater attention to India. This will provide the basis for building deeper political ties.

In 1991 the Japanese government announced certain principles on which the provision of ODA would be governed. These included democratisation, the level of defence spending, human rights and non proliferation commitments.³⁸ India fears that it will become a test case for the application of these principles because Japan's overall stakes in the country are modest.³⁹

Foreign Direct Investment (FDI) is the another factor in deciding the growth of Indo-Japanese investment in India remain extremely limited. Between 1951 and 1995, Japan direct investment in India amounted to only US \$ 186 million in Asia as a whole.⁴⁰ Since India's economic liberalisation in 1991, Japanese investment has risen, but only marginally. Japan ranked third in terms of foreign investment in 1992, but in 1993 its investment fell to less than half of the 1992 figure.⁴¹ This decline may has been the result of a deep recession in Japan and the absence of any single large investment. During the period 1991-94 the Japanese investment in India was stood at US \$ 9.88 billion which is 10.5 per cent of total FDI in India.⁴² Japanese investment have been concentrated in electrical equipment, glass, oil refining and automobile parts and leasing.⁴³

Japan is India's second largest trade partner after the United States. It accounts for close the nine per cent of India's total trade. But India accounts for less

37The Economist, 29th January, 1995, p.43.

38Varma, Lalima, 'Japan's ODA and Foreign Policy Goals', Paper presented at Japan-South...., IIC, New Delhi.

39Viswanathan, Savithri, 'Some Aspect of Japan's ODA to South Asia', Paper presented on International Seminar on Japan-South Asia Co-operation During the Post-Cold War Period at IIC, New Delhi, from 8th to 10th March 1999.

40Gupta, S.P., 'Indo-Japanese Investment Scenario and Co-operations', Paper presented at Japan-South...., IIC, New Delhi.

41ibid.

42Pant, Manoj, 'Japanese FDI in India : A Behavioural study', Paper presented at Japan-South...., IIC, New Delhi.

than one per cent of Japan world-wide trade. Based on the round of official trade talks held in January 1994, India's immediate goal was to reach one per cent of Japan's import, which it did in first seen months of that year.⁴³ The main items of India's trade with Japan is marine products, iron ore and diamonds which accounts for about 70 percent of Indian exports. Small increase in the exports of engineering products has been registered.

ASEAN is one of the fastest growing markets in the world. With a population of 400 million and fast rising income, this could be a major market for Indian goods. ASEAN's share in India's mercantile global trade jumped from 4 per cent in 1989 into 15 per cent by 1996. Significantly the commodity composition of trade is increasing rapidly in manufactured goods. Taken region wise, since 1991 India's trade has grown fastly with Southeast Asia. Probably the most promising areas are trade in services and collaboration in science and technology, whose potential is yet to be fully exploited.

The present economic case for further strengthening business partnership between India and most of the ASEAN countries is based on mutual respect and co-operation. The factor endowments of Indian economy and the ASEAN economies are complimentary in many ways. India had large domestic market and its relatively affluent 'middle class' which is growing substantially since the liberalisation. The size of the middle class is estimated around 350 million, and this is equal to the size of the population of the ASEAN and the European Union. With continuing recession in the markets of the western countries which has spread even to Japan (ASEAN's most important Asian economic partner). The ASEAN countries have more interest in extending in to the Indian market in the area of investment and trade. India had the potential of achieving and sustaining 6 to 8 percent growth rate of GDP in the next decade. India is well endowed with skilled manpower and has the second largest pool of scientific, technical managerial man power in the world. India also needs and welcomes foreign direct investments especially in hi-tech-value added; export oriented and infrastructural industries.

⁴³Mehta, Rajesh, 'Aspect of Japan-South Asia Trade', Paper presented at Japan-South...., IIC, New Delhi.

⁴⁴ibid.

Chapter IV

SECURITY ASPECTS OF THE LOOK-EAST POLICY

As India celebrates the 50th Anniversary of its Independence, the security policies are going through a profound transformation that has been brought by a fundamental changes in the internal and external environment of the Indian state. Future historians of the sub-continent are likely to judge the decade of 1990s as one the most challenging years faced by independent India. The Indian establishment can deserve some satisfaction from the fact that it has successfully steered the ship of the state through the turbulent water of 1990s. But New Delhi is far from creating a strong foundation to cope with the new security challenges in the post-Cold War world order. It is yet to articulate a coherent framework for Indian security policy in the domestic and global context. While important changes in its security policies have been initiated significant structural reform in the conduct of these policies are yet to be institutionalized.

The collapse of the Soviet Union had created a gap to the Indian policy orientation. It was a surprise shock for India. The Soviet Union supplied India with most of its arms and military equipment at low cost, good credit terms and often with licensing privileges. The demise has created severe problems for the Indian military. Spare parts for India's ageing military equipment are difficult, if not impossible to find. The problem later exacerbated by Russia's demand for payment in hard currency. India's defence community sees the loss of its source of arms and spare parts, as the most important consequence to India of the Soviet Union's collapse.

In the breaking down of the cold war induced ideological, military, economic and diplomatic barriers, the dynamic growth of the region's economies and the resurgence in power of the regional states is creating a new environment that requires new structures of peace and stability.¹ The rapid growth of China's overall national power has both positive and negative features for Asia. It is positive because it

¹Klintworth, Gary, 'Chinese Perspective on India as a Great Power', in Ross Barbbage and Sandy Gordon (ed.) India's Strategic Future, London, Macmillan, 1992, pp.94-106.

involves the development of the largest population concentrated in a single state and contributes to overall development. It significantly started open door economic reforms as one of the largest market for Asian and world's industry. An economically advancing, reforming and prosperous China is good for Asian stability and security. It is also important in creating a global and an Asian equilibrium of forces that is essential for peace and security is to be prevail, and unipolar or other hegemonic relationship are to be contained.

There are serious differences between India and China on some issues. The border between these two states forming the largest landmass disputes in Asia. In geopolitical and military terms, Chinese military aid to Pakistan is a factor of serious concern to India. However, after the path breaking visit of the former Prime Minister Rajiv Gandhi to China in 1988, paved the way for melting the border disputes. China has signed an accord with India to maintain peace on the disputed borders, the bilateral visit of both countries enlarged the scope of confidence building measures (CBMs) to be evolved as part of the accord. As a consequence, the two countries have pulled back some military forces which had been confronting each other in close proximity. An underling cause of increase in Sino-India relation is that, both are newly rising great Asian powers, conscious of an illustrious past and sensitive about their place in the world.² The demise of the bi-polar world system and the rise of China and India in the last few decades has brought the land between them into sharper focus. India is clearly the prominent power in South Asia and the Indian Ocean region.

China and India are rivals for influence in the Indian Ocean littoral states. The main land of South East Asia in particular is an area of growing interest for India and China. China has built up a close relationship with Thailand, has strong opinions about Cambodia and has made inroads into Myanmar and Bangladesh, both of which might be alerting New Delhi's security interest.³ In fact, China had seen to be

²ibid.

³Anderson. Walter K., 'Indian Ocean : Zone of Peace or Area of Tension', in Jasjit Singh (ed.) Asian Security : Old Paradigms and New Challenges, IDSA, New Delhi, 1991, pp.52-75.

cultivating a security belt on its southern flank running through Myanmar and Thailand.

Ayoob has argued that India's relations with South east Asia have been biased in favour of political-strategic calculations to the relative neglect of economic factors.⁴ Until the Bangladesh war of 1971, the importance of sea-power was a neglected field. The appearance of a US aircraft carrier in the Bay of Bengal during the war shocked the Indian security elite into re-emphasizing the importance of maritime relationship.⁵ The Southeast Asian region is strategically very important to India because, it directly connects the Pacific and Indian Oceans. As noted Indian diplomat Panikkar pointed out Malacca straits with the mouth of a crocodile is critical to both Indian and Southeast Asian security.⁶

The spectacular economic growth together with other social and political developments have caused the rise of Southeast Asian nations as prominent players in Asian politics in the post-Soviet period. Peace and stability in Southeast Asia and good will of its nation's is vital for Indian security and economic development. From the Southeast Asian point of view, India is an important region, placed adjacent with China. Therefore, it is natural that India and Southeast Asia will show an interest on each others economic and security aspects.

The focus of New Delhi's attention in seeking to gain acceptance in Southeast Asia includes India's developing relations with the US and with prominent non-communist North Asian powers such Japan.⁷ And, above all India's evolving but uncertain pattern of engagement with China. There is the basic strategic fact that for India, Southeast Asia represents the gateway into Indian Ocean from the Pacific and ^{in reverse}

⁴see Ayoob, Muhammad., India and Southest Asia : Indian Perseption and Policies, London, Routledge, 1991, p.65

⁵See Takur, Ramesh and Cartyle A. Thayes., Soviet Relation with India and Vietnam, 1945-1992, New Delhi, OUP, 1993, p.109.

⁶Quoted from Appadurai, A. and M.S.Rajan., India's Foreign Policy and Relations, New Delhi, South Asia, 1985, p.347.

Political relations between India and ASEAN region are going smoothly in the post-cold war period. India has no disputes with any of the countries of the region. It was the forefront of the liberation struggles in South East Asian countries. The large Chinese influence in the region has always been tinged with domination and threat.⁸ India has consistently supported the various political moves in the region and did well to endorse and sign the Nuclear Weapon Free Zone in South East Asia, which ensures that the South East Asian region remains an area of peace, freedom and neutrality both in time of peace and war.

ASEAN Region as a 'Security Community'

ASEAN formation in 1967 was based on the belief that local disputes were wasteful and self defeating.⁹ Since its formation, the chief goal of ASEAN has been to prevent, manage and resolve conflicts in the region. The formation of ASEAN was meant to facilitate the development of 'security community'.¹⁰

"Security community" is defined by Karl Deutch as a group of states whose members shares "dependable expectations of peaceful change in their mutual relations and rule out the use of force as a means of problem solving".¹¹ The main key of the security community is the condition where disputes among all members should be resolved. ASEAN may be a security community in a sense no member would seriously consider using force against another to settle disputes.

ASEAN has developed into a useful forum for the discussion of security issues, both regional and extra regional, and has also served as mechanism for the moderating of intra- ASEAN tensions and threat perceptions.¹² A high profile danger

⁷Gordon, Sandy., 'India and Southeast Asia : A Renaissance in Relations', in Sandy Gordon and Stephan Henningham (ed.), India, Look-East : An Emerging Power and Its Neighbours in Asia Pacific, SDSC, Canberra, 1995, p.215.

⁸Uday, Bhaskar C., 'Role of China in the Emerging World order', Strategic Analysis, Vol,XVII, No.2, 1995.

⁹See Shedon, Simon W., 'Asian Security in 1990s', Asian Survey, Vol,XXIX, NO.6, 1989, p.581.

¹⁰Samad, Paridh Abdu and Mohammad Mokhtar, 'ASEAN's Role and Development as a Security Community', The Indonesia Quarterly, Vol.XXIII, No.1, 1995.

¹¹See Deutch, Karl W., Political Community in the North Atlantic Area, New Jersey, Princeton, 1957, p.5.

¹²See Buzan, Barry, 'The Southeast Asian Security Complex', Contemporary Southeast Asia, Vol.10, No.1,1998, p.2

or threat will galvanize the ASEAN governments into joint and concerted action.

There are two major developments in the Asia Pacific region that could force ASEAN to seriously consider promoting security co-operation. The withdrawal of US military presence from the region, and Chinese growing strategic capabilities (air and naval) beyond what is considered adequate for its defence requirements.

ASEAN has achieved relative peace, stability and security in the region. Indeed, it has not foreseen the prospect for resorting to armed confrontation among themselves to resolve existing bilateral disputes. No single country can easily threaten to dominate another country. Only the most populous states, Indonesia and Vietnam, have the geo-strategic capacity to project themselves as regional great powers, but both have economies much too weak to support any bid for regional hegemony.

Southeast Asia constitutes a relatively homogenous and coherent political sub-region, and the Association has often been cited as the only example of a regional security forum in Asia. Moreover, ASEAN created the ASEAN Regional Forum (ARF), which is the only multi-lateral security forum in Asia in the Asia Pacific with a clear security role.¹³ Thus it should appear that ASEAN would be the one region where further international co-operation in regional security terms would stand the greatest chance of success.

The end of the cold war has changed the strategic environment of the ASEAN region. From the beginning of the 1980s, all the ASEAN countries embarked on arms modernization and upgrade programmes. The modernization of ASEAN armed forces is marked by two characteristics; it is largely conventional in orientation, and it has a marked maritime emphasis. The individual countries purchased conventional arms from leading arms players, to keep the overall context of the Asia Pacific military balance. However, in the presence of intra-ASEAN tension, the dynamics of ASEAN arms acquisition will have the greatest potential impact on the intra-ASEAN regional balance. The conviction that security is the key to regional stability (i.e., national

¹³Num, Mak, Joon., 'International Co-operation in Regional Security : "Non-interference" and ASEAN arms Modernisation', in Bjorn Moller (ed.) Security Arms Control and Defence restructuring on East Asia, Singapore, Ashgate, 1998, p.78.

resilience will result in regional resilience), also reinforces the belief that ASEAN arms acquisition will not be potentially destabilizing.

The collapse of the Soviet Union compelled the Soviet-backed Republic of Vietnam to withdraw its forces from Cambodia in September 1989 and paved the way for Cambodian peace settlements.¹⁴ This ended the confrontation between the six ASEAN members of Southeast Asia - Indonesia, Brunei, Malaysia, the Philippines, Singapore and Thailand - and Vietnam following the latter's invasion of Cambodia in 1979. The end of the cold war and the break up of the Soviet Union together with the whole hearted embrace of free market economies in the former Communist countries, there were even hopes that genuine Pacific security community would emerge.. Ironically, the Asia Pacific region has become an area of strategic tension and political conflict. This tension is fundamentally between a power on the ascendant China and the world's most powerful military nation, the US. At the same time differences between Japan and China, a fear of a nuclearized North Korea and tension between China and Taiwan have contributed to a general lack of stability. The paradox is that while the Asia Pacific has undergone great economic growth, a security architecture to ensure, sustained peace has not been emplaced.

Though, the ASEAN is an economic grouping with a limited security agenda, it has played a leading role in the ASEAN-Post Ministerial Conference (PMC) and later the ARF.¹⁵ It is the forum for discussion and dialogue regarding various security related issue. The ARF now consists of seven ASEAN members (Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam) and eight dialogue partners (Australia, Canada, India, Japan, New Zealand, South Korea, the US and the EU), the two consultative partners - Russia and China, and three observers (Cambodia, Laos and Papua New Guinea).

The Role of China in the ASEAN Region

China welcomes the decline of the cold war and Soviet power in the region and its policies towards Indo-China and other countries reflect these changes. The

¹⁴See Acharya Amitav, 'Th Association of Southeast Asian Nations Security Community or Paecce Community' Pacific Affairs, Vol 64, No2, Summer, 1991

decline of the old order is the source of the current focus on economic development. Beijing's Southeast Asia policy leads to stabilize regional détente. Moreover, China needs to establish a foundation for future regional co-operations against potential threat. Despite the ASEAN states concern for Japan's future role in the region, there is greater regional apprehension over China's potential threat to Southeast Asian security. In the preparation for the future, China must act to reduce regional anxiety over its power. Accordingly, Beijing's regional policies aims to promote a peaceful ASEAN environment in which China can focus on domestic economic development.¹⁶

China's policy on Indo-China during the Cambodian problem reflects the anxiety of its strategic posture. China had played an aggressive role in the Cambodian conflicts through supporting one of the fighting groups (Khamer Rouge) for hegemonise the territory. Subsequently, Beijing has made it clear that it will not be an impediment to an agreement that all other regional and local actors be satisfied with a prospective peace package. The growing China's regional ambition having a little suspicion throughout Southeast Asia. Chinese potential power already cause a shadow over Southeast Asia. As the Soviet presence in Vietnam has diminished, China has improved its ties with Hanoi and her policy towards Vietnam having a great concern in the region.¹⁷

In the early 60s, China joined hands with Indonesia's charismatic leader Sukarno and propagated the concept of the 'new emerging forces'. They characterised the then existed international organization of United Nations as power oriented and discriminatory.¹⁸ It openly supported Communist insurgencies exhorting the latter to overthrow bourgeois reactionary regimes in Indonesia. But since 1980s China has established a different kind of relationship with the regional states based on convergence interest. It had have some deep reservation about potential of its power projection beyond its territory. But same capability combined with China's expanding and commercial interaction and buttressed by co-operative relations with

¹⁵Num Mak Joon, op cit, P-80

¹⁶See Hussain Karki, *China, India and Southeast Asia after the Cold War*, in Baladas Ghoshal (ed.), *India and Southeast Asia : Challenges and Opportunities*, New Delhi, Konark, 1996, p.41.

¹⁷ibid.

¹⁸Sridharan, Kripa, *ASEAN Region in India's Look-east Policy*, London, Dartmouth, 1998, p.33

the US has made China's position acceptable. For their part, the ASEAN countries have come to view that present Chinese focus on economic modernization as helping rather than impeding their own objectives.¹⁹ In the final analysis, the ASEAN would not want to alienate or isolate China but would prefer to include Beijing in the regional prosperity and security. In pursuance of the above objective, China is* included in the ARF along with the US-Japan.

With Indonesia finally normalizing relations with China in 1990, it may be concluded that Beijing now enjoys good neighbourly relations with the entire ASEAN community. However, the latter has been uncertain about China's regional role.²⁰ Territorial disputes between China and some of the Southeast Asian countries have yet to be resolved. By laying claims to the islands in the South China Sea (the Paracels, Pratas, Macclesfield, Bod and the Spratlys), China has disputed the claims not only of Vietnam but of Malaysia, the Philippines and Brunei. These countries are already in possession of some of these contentious islands. Vietnam has 21 islands, Malaysia has three and the Philippines has eight. Although, Indonesia is not a claimant to the Spratlys, the exclusive economic zone of its Natuna Islands overlaps with the Chinese claims,²¹ raising overall concerns that the controversy over ownership of the South China Sea Islands could potentially become a flash point among various claimants.²² So far, only Vietnam had encouraged the Chinese navy. However, the Southeast Asian Nations were unsuccessful in preventing Chinese occupation of seven islands Spratlys group, bringing it geographical closer to Southeast Asia. The standing committee of the Chinese-National People's Congress has passed a law claiming sovereignty over entire archipelago and sanctioning the use of force against any intrusion.²³ In April 1992, Zhang Zusan, the Deputy Chief of the Chinese navy linked naval modernization to protecting its interest in the South China Sea, thereby extending its defence perimeters in the area. As if to legitimise its claims, China gave concession to an American company, Crestone for, oil exploration

¹⁹see, Richard Stubbs, 'Sub-regional Security Co-operation in Asian Military and Economic Imperatives and Political Obstacles', Asian Survey, May 1992, p.400.

²⁰ibid

²¹ibid

²²ibid

²³ibid

in an area lying between Vietnam and Malaysia.²⁴ The claim and the self conferred legitimacy constitutes a challenge to rival claimants as well as Indonesia.

China's brush with Vietnam in 1989 had resulted in some diplomatic moves by the ASEAN, in which Indonesia played a leading role. A series of workshops and seminars on managing potential conflicts in the region was initiated, with the agenda being dubbed as 'preventive diplomacy'.²⁵ In July 1993, the foreign ministers at the ASEAN ministerial meeting welcomed the effects to intensify the consultative ties with China.²⁶ Qian Qichen, then Foreign Minister of China, reiterated the assurance that China would always be a positive force for peace, stability and development in the region.²⁷ So far, informal consultations among the various claimants have not led to consensus. Recently China declared that it would extend its administrative control by setting up an independent Oceanography body to supervise the Spratlys and their territorial water.²⁸

India ASEAN Security Relations

Geopolitical links between the Indian and Pacific Ocean ensured that force modernization by the Indian navy would generate unease in Southeast Asia. Relations between India and Southeast Asian countries waned from the 1960s to the 1980s for a number of reasons. India's pretension to regional and continental leadership were setback the military debacle at the hand of China in 1962. India's close military links with the Soviet Union following the friendship treaty of 1971 caused fresh anxieties among Southeast Asian countries. These suspicions of India and non-alignment being unduly accommodative towards Soviet interest were reinforced in the 1980s by the relatively softer line adapted by New Delhi on the Vietnamese occupation by Cambodia and the Soviet invasion of Afghanistan.²⁹

²⁴ Asiaweek, 6ht August 1993.

²⁵ Gordon Sandy, op. cit., p.220

²⁶ *ibid*

²⁷ See, Chen, Qimao, 'New Approaches in China's Foreign Policy : the Post Cold-War Era', Asian Survey, March 1993, p.240.

²⁸ Gordon Sandy op. cit.

²⁹ Imam, Zafar, 'Indo-Soviet Relations and Asia Pacific in the Nineties', in Rasgotra, M., V.D. Chopra and K.P. Misra (eds.). op.cit., p.140.

The Soviet withdrawal from Afghanistan in 1988, followed by the Vietnamese withdrawal from Cambodia in 1989 removed the political irritance between India-ASEAN relations. Collapse of the Soviet Union reinforced the trend towards evaluating India's policy on its own merit rather than through the distracting prisms of the cold war.³⁰ There was a relatively greater willingness in ASEAN capitals to accept the defensive explanations to India's force modernization in the second half of 1980s. India also moderated its relations with China and upgraded Southeast Asia in the hierarchy of its foreign relations.

✓ In its relations with Southeast Asian countries, India has several plus points. India unlike China, Japan and US, does not evoke memories of any imperialist past in the Southeast Asian mines. India does not have any territorial claims against Southeast Asian country. The land border with Myanmar has been demarcated; so also the maritime boundaries with Myanmar, Thailand and Indonesia. India does not put claims on Indian minority groups in Southeast Asian countries, nor do the latter pose any problem as far as ethnic relations in Southeast Asian countries are concerned.

Issues of regional security and the management of regional order between India and ASEAN moved from an abstract to a concrete level in the first half of the 1970s with the birth of Bangladesh. Within South Asia, India emerged as a relative giant. The communist victory in Indo-China resulted in a militarily formidable Vietnam which staked its claim to be the leading military power in the region, despite their limited forms of economic co-ordination and co-operation the ASEAN states held the balance of economic advantage.³¹ Concomitantly, one could also see the emergence of a differentiated Southeast Asia - ASEAN Southeast Asia and Indo-China-Southeast Asia.

The Indo-Soviet treaty in 1971 was considered with some disquiet by ASEAN countries. They feared that the Soviet presence in South Asia would extend her influence to the Southeast Asian region. The Vietnam war and the Soviet's friendship

³⁰Dubey, Muchkund., 'India's Foreign Policy in the Evolving Global Order', International Studies, Vol, 30, no.2, 1996.

³¹Gordon Sandy, *op.cit.*, p. 219.

with Vietnam have made underline of their fear. Mr. Adam Malik said that 'his country had rejected a Soviet offer of friendship treaty on the same line as the Indo-Soviet treaty and significantly added that any such offer from the USSR to any ASEAN member state would have to be discussed by the association before the particular country would take any decision on it, there by indicating that this would not merely be a bilateral matter'.³² He also said " we do not like a treaty; our need is not the same as that of India".³³ Consequently, when the Indo-Pak issue was raised in the UN, the ASEAN countries (except Singapore) voted in favour of Pakistan and USA in the UN General Assembly, and later Malaysia joined in India's side.³⁴

While the United States' post-cold war strategic presence in Southeast Asia was matter of serious concern to India what agonized the ASEAN states was the fear that their region might become a victim of an entirely different kind of strategic rivalry - a rivalry between the three major Asian powers namely, Japan, China and India - following superpower disengagement from the region.³⁵ This led the ASEAN states for the first time to voice their concern about a potential Indian threat to their security. Towards the end of the Rajiv's administration, India's regional policy once again found an altered interpretation in the ASEAN region. India's military build up and its action in its neighbourhood like the send of an Indian peace keeping force to Sri Lanka, the despatch of troops to Maldives to save the regime, and disputes over Indo-Nepalese trade treaty which brought out the reduction of essential commodities to Nepal, saddle India with the image of a regional hegemoniser. India's projected reach in the Indian Ocean following its development of long range naval, air ballistic missile, and subsequently the long standing rivalry between India and China fueled ASEAN anxieties. The Indian Ocean being the area of overlap between South and Southeast Asian security complex, any heightened Indian activity in that region, possibly in competition with China, tended to raise the concern of those ASEAN states whose maritime boundaries lay close by. Seen in the context of a waning superpower rivalry in the region and the gradual reduction of US presence, ASEAN

³²Adam Malik was the Indonesian Foreign Minister during 1970s. Sandy Gordon, op cit., p.222.

³³ibid

³⁴ibid

countries worried about the consequence of a regional middle-power tussle for dominance.

The situation in the 1990s of course a vastly altered one. Any concern about India's military build up on the part of ASEAN has dissipated with the settlement of the Cambodian conflict. The 90s offers several opportunities and challenges for New Delhi to chalk out a long term strategy. During the visit of Singapore Prime Minister Goh Chok Tong, to New Delhi in 1992, mentioned that, few years ago Singapore entertained fear about accelerated growth of Indian navy in and around the Andaman and Nicobar Islands, but once, the situation was explained his government no longer considered that view tenable.³⁶

The strategic interaction between India and some of the Southeast Asian countries since 1991 seems to be on the swing. A number of confidence building measures (CBMs) that India undertook on the one hand and greater appreciation of Indian maritime threats on the ASEAN by the other, have ushered in a new era of co-operation in a transcends naval contours. Perhaps the most important naval co-operation was the joint naval exercises with India and Indonesia and Malaysia in late 1991 and later with Singapore in mid 1993 near the Andaman Islands.³⁷ In February 1993, India and Malaysia signed a memorandum of understanding on defence co-operation. However, it was primarily aimed at providing training to the Malaysian pilots and supplying spare parts and servicing Mig-29 air crafts.³⁸ Reportedly, India has already started expanding the facilities at Mig-29 assembling factory to meet the Malaysian demand. Atleast 100 pilots and ground supporting staffs of the Malaysian Air Force to be trained in India. Malaysia has also expressed interest in training its marine commando forces and servicing its naval boats in India, and maintaining regular exchanges of navy. Similarly, Malaysia has also expressed interest in India's

³⁵see, Simon Sheldon, W., 'Alternative Visions of Security in the Asia-Pacific', Pacific Affairs, Vol.69, No.6, Fall 1996, p.381.

³⁶Dinesh Kanwar, 'Joint Naval Exercise with Singapore', Times of India, 11th February, 1993.

³⁷The Hindu, 28th January, 1998.

³⁸see The interview with Malaysian Prime Minister Mohammad, Times of India, 26th April, 1992.

HAL built Dornier 228, Maritime Petrol craft and HAL built Chetak helicopters for search and rescue operations.³⁹

Although India has signed Memorandum of Understanding (MoU) with Singapore, co-operation on several fronts was already had been undertaken. Apart from the joint naval exercises between the navies of India and Singapore, Singapore interested to make use of Indian military facilities for training and to test its indigenously developed defence equipment.

Indonesia also appears keen to get help from the Indian defence industries, particularly aerospace. Indonesia has a very ambitious aerospace programme and India's vast experience in this field have obviously have a lot of scope for co-operation.

Thailand too has an interest in holding joint naval exercises with the Indian navy. Until the 1990s, Thailand has been heavily depend on the Chinese for a variety of military hardware. However, the Thai military is not suited to Chinese equipment because the Thai defence capabilities were helped by Russian arms. The Indian experience with Russian equipment, Thailand would offer several opportunities if it decides to procure arms from Russia. Thailand has also keen in civilian nuclear field, and it was discussed with Indian prime Minister during his visit to Thailand in 1993.

With Vietnam so far, India has had political relations and there is no evidence of any concrete links with that country. Although Vietnam was initiated in the process of upgrading its military personal qualitatively, but its military equipment (almost entirely supplied by the former Soviet Union) is outdated. Vietnam also seeking India's help for upgrading their military equipment.

Giving the expanding range of these strategic and political activities between India as ASEAN, the 'China factor' too played a major role in the ASEAN move towards India to cultivate as an alternative, both in the economic spear and on the security plank to balance both side.⁴⁰ Southeast Asian countries in turn became

³⁹Times of India, 13 May 1992

⁴⁰See Viswam S, "India's Look East Policy", World Focus, June, 1997.

relatively more varying of China in the aftermath of the end of the Cold war and the possibility of US military retrenchment from Asia Pacific. In the new order, the only two Asian countries that can act as a break on possible Chinese design on Southeast Asia are Japan and India. But Japan arouse too many uncomfortable historical memories. The net result is to make ASEAN assessment of India's military power somewhat more benign than used to be the case in the 1980's. At the same time, India is not in a position to compete economically with Japan. So political links with India offer ASEAN the prospect for a counterweight to China's military and Japan's economic dominance of the region.

India's interest in Southeast Asia have in recent years been more intense than Southeast Asia's interest in India. So, it is India that has to go out of its way to improve its relations with Southeast Asia. The old Indo-Soviet security partnership has been obsolete, it was unable to seek India's larger security interests in the post-cold war scenario. India did not help its case in the earlier part of the 1990s by a burst of over enthusiasm, in which it somewhat ineptly assumed that its membership of regional forums and even its leadership role would be taken for granted. But New Delhi has subsequently come to recognize that it must work on its Southeast Asian relationship at a number of levels. It has assumed a lower profile in terms of its attempts to become more closely incorporated into multilateral forums such as APEC.

The admission of Vietnam into ASEAN in 1993 had given lot of opportunity for India into the ASEAN region. India's relationship with Vietnam during the cold-war period may eventually assist its own aspirations in Southeast Asia. It has thus moved to strengthen its economic and security ties with Vietnam. There may even have been a 'message' in the fact that the Prime Minister Rao chose to visit Vietnam before Singapore during his visit to Southeast Asia in 1994. India has thus targeted Singapore as a point of influence that assisted its closer association with ASEAN forums such as ARF.⁴¹ Also, according to the Director General of the Confederation of Indian Industries, Singapore is an important listening post for multinationals.⁴²

⁴¹Sen, Ajoy, 'India May Be Invited To Security Mat', Indian Express, 23 March, 1994.

⁴²Raote, Dilip, 'Knocking on closed Doors', Economic Times, 15 September, 1994

Purely from a business point of view, it may be noted that all the Southeast Asian countries have started redefining their defence policies and threat perceptions after the end of the cold-war and the Cambodian issue. ASEAN is not a joint security arrangement like NATO. Modernization of defence forces are included in the main agenda of the governments. All the Southeast Asian countries are now well aware of their maritime interests and the need to protect it. Now that most countries have overcome the earlier domestic armed rebellions, now the attention is focused on external threats, real as well as perceived. Because of their prosperity, the ASEAN countries had started spending more on defence and are trying to acquire sophisticated weapons. Southeast Asia is going to be one of the largest market for arms in the coming years. At the end of this decade, the region is expected to spend about \$ 10 to 12 billion on arms acquisition alone. Their need would include a wide variety of weapons: from small arm to advanced ships and air crafts and missiles. It should be understood that strong defence links would be not only enduring, but also would have long term benefits. Probably South East Asia is the only market for India could look forward for arms exports.

Chapter V

CONCLUSION

After a lengthy survey of the different aspects of the 'Look East Policy', it can be said that, India is now conducting a more outward and futuristic foreign policy, involving a new look at the opportunities that directs to the East. This new strategy reflects the perception in New Delhi that a new centre of world economic activity is emerging in the Asia-Pacific. The one area where India's foreign policy has been successful in the post cold war period is her relationship with South East Asian Region. India's dialogue partnership with ASEAN, its membership in the ARF, clearly shows that India and South East Asia have discovered each other and there is a better appreciation of both sides. It is important that India keeps up the momentum which India secured in 1990s.

India's interest towards the South East Asian Region was strained during the formation of ASEAN. Regional groupings of an exclusive sought was not attractive for India because of its perception that, such association favoured particular security environment. India's attitude to the formation of ASEAN was rather ambivalent. India also had doubts about the durability of ASEAN. For this reason, India prescribed broad based economic co-operation as an alternative. India also believed that economic strength through co-operation was a better guarantee for security than military support from outside.

The ASEAN countries and India has had common stand on the withdrawal of Western powers from South East Asia and it make an opportunity for regional state to realise their true sovereignty instead of depending on external help of their stability. This was in keeping with India's cherished foreign policy of autonomy in foreign policy. Withdrawal also appealed to India because it meant a lessening of western power's presence in the Indian Ocean region. India's own relations with the west, particularly the US, was moving in direction which made it suspicious of the latter's involvement anywhere. In South East Asia it was more because of the United States direct involvement in the Vietnam war, which India, unlike some ASEAN states,

vehemently opposed. If India plays its card carefully, South East Asia will emerge as a success story in the India diplomacy in the coming years.

At present, India's being a power located in the Indian Ocean tends to move it somewhat to a global centre of gravity. As a strategic and economic entity the Indian Ocean is still largely a *tabula rasa*. The role of Indian Ocean in the transit of goods between Europe and Asia are the only major factor linking it with wider global strategy. Unlike the Asia Pacific region, the Indian Ocean region does not presently have the economic "critical mass" to constitute a major venue of world trade. It is also this region that is free from the regional tensions which in turn inhibit its development in to a dynamic centre of world politic and trade.

The creation of an institutional set up for the Indian Ocean Rim countries is an another window on India's 'Look East Policy'. The initiation of the Indian Ocean Rim-Association for Regional Co-operation (IOR-ARC) might take on the same trading protocols as APEC. The IOR group countries were consisted of different regions from different continents:- the South Asia, South East Asia, West Asia, Eastern Africa, South Africa and Australia. Thailand, Indonesia and Singapore are the members of the IOR-ARC from the ASEAN region and India and Srilanka from the South Asian Region. In 1994, even without the benefit of the IORI, intra- IOR merchandise trade was US \$ 201.5 billion or 22.1 % of the total trade. If IOR- ARC should materialised the interaction and co-operation between India and APEC countries, India might get maxim benefit. The two way trade would increase substantially and open new opportunities for trade, investment and in other fields of mutual concerns.

The recent initiative of another forum for co-operation between the two region called BIMTC-EC (Bangladesh, India, Myanmar, Srilanka, Thailand-Economic Co-operation) is an embryonic form in the sub regional level. Thailand had mooted this idea of sub-regional co-operation. It provides formal linkage between South Asia and Southeast Asia to foster economic and security co-operation. These are countries washed by Bay of Bengal. Apart from linking the South Asia, the Bay of Bengal Community could synthesise the best of SAARC and ASEAN. The Bay of Bengal

Community spreads from India to South China sea. Though there was no immediate threat, these security scenario must be borne in mind by both India and ASEAN. The IOR-ARC can be used for economic co-operation, while BIMTC-EC covers not only economic aspects, but deals security scenario also, between India and Southeast Asia region.

India's interest in East Asia has thus become major concern of New Delhi. East Asia is likely to become one of the important global centre of economic activity in the present scenario. Even Europe is busy in seeking new ties in the East Asian regions as evidenced by the Euro-Asian Summit of 1996 (India was not invited to the meeting). Yet there is a powerful element of asymmetry between India's and East Asian perception of the possible India's role in Asia. APEC is the largest trading block in the world and India has been seeking on the door of APEC membership. Due to the successful policy orientation towards the East, India have a chance of getting membership in the APEC.

Yet a sustained economic growth rate in India of 6-7 % or more would, over the longer term, cause most Asian nations to view India very differently. As a big rapidly emerging market, India would be most unlikely to be ignored, whatever other agendas are being played out elsewhere in Asia. South Asia itself contained almost one part of global population. Per capita incomes are extremely between only about US \$ 250 and US \$350. At the same time, all the major economies in South Asia have recently been liberalised. This factors together suggest that growth of consumption in South Asia is likely to be high by world standards, provided that economic liberalisation can be pursued in a relatively stable political environment. Added to these, the single largest global energy source: Gulf oil and gas is located virtually on the doorstep of South Asia. The gulf is a mere thousand kilometre from Pakistan. Should these potential regional synergism ever be permitted to realised, India could find itself at the centre of a dynamic global centre of growth on the same general scale as that represented by East Asia today.

Provided India can make progress in many area, the two countries could also find these similarities of views on issues such as human rights and democratisation.

Certain ASEAN states are dissatisfied, with the pressures exerted by the western countries on Asia to follow their standards of human rights and democracy. Former Prime Minister Mr. Narasimha Rao said that, the content and nature of human rights are conditioned by social, traditional and cultural forces that inform different societies, the UN should create uniform international norms for human rights, such norms should not be unilaterally defined and set up as absolute precondition between societies. On another occasion Mr. Rao talked about the relation between development and democracy and it was not safe to assume that development will automatically follow democracy. This opinion is also expressed by elites in some ASEAN states. Parallel thinking in some of these matters is a need for India and ASEAN to be more compatible. But despite these new found, compatibility and the former linkage that has occurred between the two sides, there is still some reticence on ASEAN's part to welcome wholeheartedly into the region.

Another area of linkage that India can develop with the Southeast Asian region is in the field of higher education. The facilities that are available in India in the field can meet an important need of Southeast Asia, who do not have adequate facilities in the region. These region has increasing demands for technical education in view of their expanding economy. At present, a large number of Southeast Asian students goes to either the US or Western Europe where the cost of higher education have increased manifold. For many in these countries, Indian degree is quite welcome, for they would find it much cheaper to study in India than even in their own country. The Indian universities, IITs, IIMs as well as medical colleges must launch a major drive to advertise the courses they offer and attract students from these countries. The opening up of our higher education to the Southeast Asian students will bring us much needed foreign exchange. While the quality of our higher education is attractive, it is necessary to greatly improve hostel facilities. The setting up higher educational institutions in the private sector within a joint venture framework also deserves the attention of close co-operation. Through an educational process, we can produce a pool of trained manpower in their respective countries, leading to the establishment of linkages necessary for the promotion of our interest in that region .

India and ASEAN can work together on non economic factors also. The so called 'social clause' that is being sort to be included in the ministerial meeting of World Trade Organisation has created a debate on the issue. The western countries gone a head in pushing the need for the incorporation of the social clause; while the Third World countries under the leadership of India and some ASEAN countries had fought against any such clause related to non economic issues. Both India and the ASEAN countries have the same view on the unilateral stand on such issues taken by the west. The WTO's example shows that India and ASEAN can join together to oppose such issues for mutual benefit.

During the time of cold war the attention of Non-aligned Movement (NAM) was tried to minimise the power rivalry and the arms escalation. But with the end of the cold war the role of the NAM was substantially reduced in the disappearance of bipolar tension. This was the result of the decline of the communist bloc that was caused by the disintegration of the Soviet Union. The contemporary scenario proves that the role of the NAM is not over yet, what it needs is a new direction and a new agenda. One crucial area of action could be the economic field. With the advent of globalization and the new prescription put forward by the WTO, Japan, America and the Western countries has come to dominate the international system. The unipolar power structure is also supporting of this trend. The sound odd developing countries reduced in any field either economic or political. The Western countries have taken unilateral measures in economic and non economic fields for controlling Third world countries. In this scenario India and ASEAN can have a combined realisation as to the necessity of co-operation and tries to unite the Third World countries under the umbrella of NAM. India and ASEAN countries have the same view about some of the measures taken by WTO, IMF and other multilateral organisation. So, both the regions must cooperate and pursue a common policy against such unilateral decision taken by these bodies. India and some of the ASEAN countries like Malaysia, Indonesia and Thailand have reasonably strong economies in the Asian region. These countries must start joint industrial ventures in less developed countries of the NAM and give financial support to the so as to stabilise them and prevent from the future oppression by the West.

With India's new 'Look East Policy', she is rediscovering Asia. The success of the Look East Policy shows that Nehru's Pan-Asian dreams has partially materialised through the new efforts and co-operation with South East Asian countries. The focus of international industrial and trading activity has clearly shifted from Atlantic to the Pacific, therefore making it one of the most prosperous regions of the world with highest growth rates. It is recognition of this fundamental geographical movement in global business and the opportunities that it presents India to further her on economic interests in her tryst with globalization, that informs India's newly awakened interest in South East Asia. In more precise terms, India wants to participate more actively in the US \$ 1.5 trillion trade engagement in the region. As Mr Rao emphasised in his eloquent plea that India be allowed to be more intimate terms with Asia-Pacific Countries. Without this region there would be no springboard for New Delhi in the global market place. India hoped to draw as much investment and co-operation as possible from Asia and the Pacific. For a real and sizeable jump in trade and investment, India needs to improve productivity, the quality of its products and the competitiveness of its market and climate of investment in the country. India must prove its relevance to the countries of the South East Asia and demonstrate its strengths either in military or economic terms to be acceptable as a major actor in the affairs of the region. Till now India's leverage in the region is extremely limited, since India neither fear military nor respect its economic achievement. In such a situation, India must move rather slowly but steadily to improve her relation with the Asia-Pacific both politically and economically to make India's presence felt in the region.

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